

# **COASTAL ENERGY COMPANY**

**NOTICE OF ANNUAL GENERAL MEETING**

**TO BE HELD ON JULY 22, 2010**

**AND**

**MANAGEMENT INFORMATION CIRCULAR**

(all financial information as at December 31, 2009 unless otherwise indicated)  
(all dollar figures are in United States dollars unless otherwise indicated)



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# COASTAL ENERGY COMPANY

Walkers House, 87 Mary Street, PO Box 908GT  
George Town, Grand Cayman  
Cayman Islands  
British West Indies

## NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

Notice is hereby given that the Annual General Meeting (the "**Meeting**") of the shareholders of COASTAL ENERGY COMPANY (the "**Company**") will be held on JULY 22, 2010 at 10:00 a.m. (London time) at Strand Hanson Limited offices at 26 Mount Row, London, W1K 35Q, England for the following purposes:

1. to receive the audited financial statements of the Company for the year ended December 31, 2009 together with the report of the Auditors thereon;
2. to elect Directors for the ensuing year;
3. to appoint the accounting firm of Deloitte & Touche LLP as auditors for the ensuing year and to authorize the Directors to fix the auditors' remuneration; and
4. to approve a Restricted Stock Plan for the Company.

In addition, shareholders will be asked to consider any amendment or variation of a matter identified in this Notice and to transact such other business as may properly come before the Meeting or any adjournment thereof.

Accompanying this Notice of Meeting are the Company's management information circular and its appendices (the "**Circular**"), and a form of proxy (the "**Proxy**").

Only shareholders of record on June 11, 2010 are entitled to receive notice of and vote at the meeting.

Shareholders entitled to vote at the Meeting may do so either in person or by proxy. Those shareholders who are unable to attend the Meeting are requested to read, complete, sign, date and return the enclosed Proxy in accordance with the instructions set out in the Proxy and in the Circular. Please advise the Company of any change in your mailing address.

ON BEHALF OF THE BOARD OF DIRECTORS

Bernard de Combret  
Chairman of the Board  
George Town, Grand Cayman, BWI  
May 28, 2010

# COASTAL ENERGY COMPANY

Walkers House, 87 Mary Street, PO Box 908GT  
George Town, Grand Cayman  
Cayman Islands  
British West Indies

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## MANAGEMENT INFORMATION CIRCULAR as at and dated May 28, 2010 Solicitation of Proxies

This Management Information Circular (the "*Circular*") is furnished to the shareholders of Coastal Energy Company (the "*Company*") in connection with the solicitation of proxies by the management of the Company for use at the Annual General Meeting of the Company's shareholders to be held at 10:00 a.m. (local time) on July 22, 2009 (London time) at Strand Hanson Limited offices at 26 Mount Row, London, W1K 35Q, England and at any adjournment thereof (the "*Meeting*").

No person is authorized to give any information or to make any representation not contained in this Circular and, if given or made, such information or representation should not be relied upon as having been authorized. This Circular does not constitute an offer to sell, or a solicitation of an offer to acquire, any securities or the solicitation of a proxy ("*Proxy*"), by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or proxy solicitation.

The members of the Board of Directors (the "*Directors*") intend to vote the common shares of the Company (the "*Common Shares*" or "*Shares*") which they personally hold, directly or indirectly, in favour of the resolutions and, in their capacity as Directors of the Company, unanimously recommend the shareholders also vote in favour of such resolutions. As a group, the Directors personally hold, in aggregate, 3,314,475 Shares representing approximately 3.03% of the Company's 109,512,791 currently outstanding Shares. In addition, the six "*Independent Directors*" (see section entitled Directors and Committees) on its Board of Directors (hereinafter the "*Board*") serve on a board of six "*Attorneys*" that administer an independent voting trust covering 33,569,580 Shares, which represents 30.65% of the Company's currently outstanding Shares, and these Directors will also vote on behalf of these shares.

## GENERAL PROXY INFORMATION

### Solicitation of Proxies

The solicitation will be by mail and may be supplemented by telephone and other personal contact to be made without special compensation by Directors and officers of the Company. Except as required by statute, regulation or policy thereunder, the Company does not reimburse shareholders, nominees or agents (including brokers holding shares on behalf of clients) for the cost incurred in obtaining from their principals authorization to execute forms of Proxy.

The cost of this solicitation will be borne by the Company.

The contents and the sending of this Circular have been approved by the Board.

### Appointment of Proxyholder

The individuals named in the accompanying form of proxy are Randy L. Bartley, the Company's Chief Executive Officer (and the Company's only "*Executive Director*" – See Section on Directors and Committees), and William C. Phelps, the Company's Chief Financial Officer

**A SHAREHOLDER HAS THE RIGHT TO APPOINT SOME OTHER PERSON (WHO NEED NOT BE A SHAREHOLDER) TO REPRESENT THE SHAREHOLDER AT THE MEETING BY STRIKING OUT THE NAMES OF THOSE PERSONS NAMED IN THE ACCOMPANYING FORM OF PROXY AND BY**

INSERTING SUCH OTHER PERSON'S NAME IN THE BLANK SPACE PROVIDED IN THE FORM OF PROXY OR BY COMPLETING ANOTHER FORM OF PROXY. A PROXY WILL NOT BE VALID UNLESS THE COMPLETED FORM OF PROXY IS RECEIVED BY THE COMPANY'S REGISTRARS AND TRANSFER AGENTS:

**FOR SHAREHOLDERS WHOSE COMMON STOCK IS REGISTERED ON THE TSX-V EXCHANGE:**

COMPUTERSHARE  
2ND FLOOR, 510 BURRARD STREET  
VANCOUVER, BRITISH COLUMBIA, CANADA V6C 3B9

**OR FOR SHAREHOLDERS WHOSE COMMON STOCK IS REGISTERED ON THE AIM EXCHANGE:**

CAPITA REGISTRARS  
THE REGISTRY, 34 BECKENHAM ROAD  
BECKENHAM, KENT, BR3 4TU, ENGLAND

NOT LATER THAN 48 HOURS, EXCLUDING SATURDAYS, SUNDAYS AND HOLIDAYS, PRECEDING THE TIME OF THE MEETING, OR ANY ADJOURNMENT THEREOF, OR DELIVERED TO THE CHAIRMAN OF THE MEETING PRIOR TO THE COMMENCEMENT OF THE MEETING. PROXIES DELIVERED AFTER THAT TIME WILL NOT BE ACCEPTED.

**Revocation of Proxies**

A shareholder who has given a Proxy may revoke it by delivering an instrument in writing executed by the shareholder or by the shareholder's attorney authorized in writing or, where the shareholder is a corporation, by a duly authorized officer or attorney of the corporation, to the Company's registrars and transfer agents, at the addresses listed above, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, or in any other manner provided by law. A revocation of a Proxy does not affect any matter on which a vote has been taken prior to the revocation.

**Advice to Beneficial Shareholders**

Only registered shareholders or duly appointed proxyholders are permitted to vote at the Meeting and any adjournment thereof. Shareholders who do not hold Shares of the Company in their own name (referred to herein as "**Beneficial Shareholders**") are advised that only proxies from shareholders of record can be recognized and voted at the Meeting. Beneficial Shareholders who complete and return an instrument of proxy must indicate thereon the person (usually a brokerage house) who holds their shares as a registered shareholder. Every intermediary (broker) has its own mailing procedure, and provides its own return instructions, which should be carefully followed. The instrument of proxy supplied to Beneficial Shareholders is identical to that provided to registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on behalf of the Beneficial Shareholder. If shares are listed in an account statement provided to a shareholder by a broker, then in almost all cases those shares will not be registered in such shareholder's name on the records of the Company. Such shares will more likely be registered under the name of the shareholder's broker or an agent of that broker. Shares held by brokers or their nominees can only be voted (for or against resolutions or withheld from voting, as the case may be) upon the instructions of the Beneficial Shareholder. Without specific instructions, brokers/nominees are prohibited from voting shares for their clients. The Directors and officers of the Company do not know for whose benefit shares registered in the names of persons other than their registered holders are held.

**Voting of Proxies**

SECURITIES REPRESENTED BY PROPERLY EXECUTED PROXIES IN THE ACCOMPANYING FORM WILL BE VOTED OR WITHHELD FROM VOTING IN ACCORDANCE WITH THE INSTRUCTIONS OF THE SHAREHOLDER ON ANY BALLOT THAT MAY BE CALLED FOR AND, IF THE SHAREHOLDER SPECIFIES A CHOICE WITH RESPECT TO ANY MATTER TO BE ACTED UPON AT THE MEETING, THE COMMON SHARES REPRESENTED BY SUCH PROXY WILL BE VOTED ACCORDINGLY. **IF NO CHOICE IS SPECIFIED OR IF BOTH CHOICES ARE SPECIFIED, THE PERSON DESIGNATED IN THE ACCOMPANYING FORM OF PROXY WILL VOTE IN FAVOUR OF ALL MATTERS PROPOSED BY MANAGEMENT AT THE MEETING.**

The enclosed form of Proxy - when properly completed and delivered and not revoked - confers discretionary authority upon the person appointed proxy thereunder to vote with respect to amendments or variations of matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting. In the event that amendments or variations to matters identified in the Notice of Meeting are properly brought before the Meeting or any further or other business is properly brought before the Meeting, it is the intention of the person designated in the enclosed form of Proxy to vote in accordance with their best judgment on such matters of business. At the date of this Circular, management of the Company knows of no such amendment, variation or other matter which may be presented to the Meeting.

### Interest of Certain Persons in Matters to be Acted Upon

Except as disclosed herein, no Person has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in matters to be acted upon at the Meeting. For the purpose of this paragraph, "**Person**" shall include each person: (a) who has been a Director, senior officer or insider of the Company at any time since the commencement of the Company's last fiscal year; (b) who is a proposed nominee for election as a Director of the Company; or (c) who is an associate or affiliate of a person included in subparagraphs (a) or (b).

## VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

### Voting Securities and Rights

The Company has one class of securities, being Common Shares. Each share carries the right to one vote. The Company's authorized and issued and outstanding share capital as of the date of this Circular are as follows:

Authorized Capital:	250,000,000 Common Shares
Issued and Outstanding as at the Record Date:	109,512,791 Common Shares

In accordance with the Articles of the Company, on a show of hands, every individual who is present and entitled to vote as a shareholder or as a representative of one or more corporate shareholders, or who is holding a Proxy on behalf of a shareholder who is not present at the Meeting, will have one vote and on a poll every shareholder present in person or represented by Proxy, and every person who is a representative of one or more corporate shareholders, will have one vote for each share registered in his name on the list of shareholders, which is available for inspection during normal business hours at Computershare, 2nd Floor, 510 Burrard Street, Vancouver, British Columbia, Canada V6C 3B9 and will be available at the Meeting.

### Record Date

Only shareholders of record on June 11, 2010 (the "**Record Date**") who either personally attend the Meeting or who have completed and delivered a form of Proxy in the manner and subject to the provisions described above will be entitled to vote or to have their shares voted at the Meeting.

### Principal Holders of Voting Securities

To the knowledge of the Directors and officers of the Company, the following table lists the persons who beneficially own, directly or indirectly, or exercise control or direction over securities carrying in excess of 10% of the voting rights attached to the shares as of the Record Date:

NAME	NUMBER OF SHARES HELD DIRECTLY OR INDIRECTLY	PERCENTAGE OF ISSUED SHARES <sup>(1)</sup>
Oscar S. Wyatt, Jr. <sup>(2)</sup>	33,569,580	30.65%

(1) Based on 109,512,791 Shares issued and outstanding as at the Record Date.

(2) These Shares are subject to a Voting Agreement in which six of the independent Directors serve on the board of seven "Attorneys" which holds the proxy for these Shares.

## CORPORATE GOVERNANCE

Formation of Company. The Company was incorporated on May 26, 2004, and has completed five financial years for which financial statements are available.

The Company became a reporting issuer in each of the Canadian provinces of British Columbia and Alberta on September 16, 2005, and in the province of Ontario on September 11, 2006. Its shares are listed on the TSX-V Exchange and the London AIM Exchange.

Governance Principles. Effective 30 June 2005, National Instrument 58-101 - Disclosure of Corporate Governance Practices ("**NI 58-101**") was adopted in each of the provinces and territories of Canada. NI 58-101 requires issuers to disclose the corporate governance practices that they have adopted.

Corporate governance relates to the activities of the Board, the members of which are elected by and are accountable to the Shareholders, and takes into account the role of the individual members of management who are appointed by the Board and who are charged with the day to day management of the Company. The Board is committed to sound corporate governance practices which are both in the interest of its Shareholders and contribute to effective and efficient decision making. NI 58-101 establishes corporate governance guidelines applicable to all public companies.

The Company has reviewed its own corporate governance practices in light of these guidelines. In most cases, the Company's practices comply with the guidelines, however, the Board considers that some of the guidelines may not be suitable for the Company at its current stage of development, and therefore these guidelines have not been adopted in total.

In accordance with the mandates of NI 58-101, as applied to "**Venture Issuers**" (see Form 58-101F2), the Company's corporate governance practices are set out below. The Board's governance principles, including, but not limited to, the "**Terms of Reference**" for its four committees (Audit, Compensation, Nomination & Corporate Governance, and Reserves) are reviewed regularly and modified as warranted. These Terms of Reference are available in print to any shareholder upon request.

Director Independence. In accordance with NI 58-101, the Board has determined that six (6) out of seven (7) Directors are "**Independent Directors**" (See section entitled "Election of Directors" for definition of phrase). For a Director to be considered independent, the Board must determine that the Director does not have any direct or indirect material relationship with the Company. Mr. Bartley, the Company's President and Chief Executive Officer, is the only Director who is not independent.

All members of the Company's four Committees are Independent Directors, as required by the Board's Governance Principles.

Code of Ethics. All Directors, officers and employees of the Company must act ethically at all times and in accordance with the Company's Code of Ethics. This Code of Ethics is filed on SEDAR and can be found at [www.sedar.com](http://www.sedar.com). It is also available in print to any shareholder upon request. Under the Board's Governance Principles, the Board will not permit any waiver of any ethics policy for any Director or executive officer. If any Director concludes that an actual or potential conflict of interest may have arisen, s/he must promptly inform the CEO and the Chairman of the Board of the nature of the conflict. If a significant conflict exists and cannot be resolved, the Director should resign. All Directors are required to recuse themselves from any discussion or decision affecting their personal business or professional interests.

Communicating Concerns to Directors. The Board has established written procedure to enable anyone who has a concern about the Company's conduct or policies, or any employee who has a concern about the Company's accounting methods, reporting controls or auditing matters, to communicate that concern directly to the Board, to the Chairman, to any of the Independent Directors or to the Audit Committee. Such communication will be held confidential or anonymous (except in circumstances where corrective action necessarily requires limited disclosure), and may be e-mailed, submitted in writing or reported by phone to the designated *whistleblowing* officer ("**DWO**"), who will immediately contact the Corporate Governance and Nominating Committee of the Board. All such communications are promptly reviewed by the DWO, and any concerns relating to accounting methods and disclosure controls, auditing or officer conduct are sent immediately to the Chairman and to the chair of the Audit Committee. The Company's Whistleblowing Procedure prohibits any employee from retaliating or taking adverse action against anyone for raising or

helping to resolve an issue raised through this process. Copies of the Company's whistle blowing policy are available to any shareholder upon request.

**Insider Trading.** While the Company encourages all of its Directors, officers and employees to become shareholders of the Company, it likewise requires that any trades by those persons comply with the restrictions on "*insider trading*", as set forth in the securities laws of Canada and the U.K., and the policies and rules of the London Stock Exchange and the TSX Venture Exchange (on which the Company's Shares trade). To this end, the Company has adopted a formal and written "*Insider Trading Policy*", a copy of which has been provided to all personnel, which generally provides (here, in summary form) that:

It is illegal (and therefore a violation of the policy) for any Directors, officers or employees to sell or otherwise deal in the Company's securities with knowledge of "*unpublished price-sensitive information*", any "*material information*" or a "*material change*" (generally, information or facts that, if publicly-known, would reasonably be expected to have a significant impact on the market value of the Company's shares).

The Company makes periodic announcements to its personnel concerning "*blackout periods*" - both of a "regular" (such as release of quarterly financials) and of a "special" (such as just prior to testing of an exploration well) nature, during which insider trading is prohibited because of the presumption that the trade would be based on "*insider information*."

In addition, Directors and senior officers of the Company must receive "*pre-clearance*" from the Company Secretary of all intended share transactions, and such transactions are thereafter publicly-divulged via the SEDAR.

The General Counsel gives annual instruction to the Company's staff on the specifics of the Company's Insider Trading Policy. Copies of the Company's Insider Trading Policy are available to shareholders upon request.

### **Board of Directors and Committees**

Our Board currently consists of seven (7) Directors. Bernard de Combret is the Board's Chairman, whose responsibilities include those matters discussed in the Board's Governance Principles and in the Chairman's formal job description (or "*terms of reference*.") Copies of his job description are available to shareholders upon request.

The Board is responsible for approving strategic plans, annual operating budgets and plans recommended by management. Board consideration and approval is also required for all material contracts and business transactions and all debt and equity financing proposals (unless previously approved as part of the budget). The Board is also responsible for the review of senior executive recruitment and executive compensation, subject to the recommendations of the Corporate Governance and Nominating Committee and the Compensation Committee, respectively.

The Board has adopted written Terms of Reference for all of its four (4) standing committees: the *Audit Committee*, the *Compensation Committee*, the *Corporate Governance and Nominating Committee*, and the *Reserves Committee*, copies of which are available to shareholders, upon request. The Board has determined that members of its four committees shall not also be employees or managers of the Company (employee/managers who are also Directors being referred to as "**Executive Directors**" and non-Executive Directors who satisfy the definition of the AIM being referred to as "**Independent Directors**").

**Audit Committee.** The Audit Committee was constituted at a full meeting of the Board held on 31 January 2007, in accordance with the Articles of Association of the Company. The members of the Audit Committee are Messrs. Black, de Combret, Wylie, and Zaozirny (currently the chair). All of the members are Independent Directors. The Committee met 4 times in 2009 and 2 times to date in 2010.

The Board has determined that Audit Committee members are financially literate as defined under Multilateral Instrument 52-101 – *Audit Committees*.

The Audit Committee's Terms of Reference, which were adopted by the Board, are attached hereto as Exhibit "C", and were also included under the heading "*Audit Committee Information*" in the Company's Annual Information Form ("**AIIF**") dated April 16, 2010, which contains information for the year ended

December 31, 2009. The AIF may be obtained from SEDAR under the Company's name at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.CoastalEnergy.com](http://www.CoastalEnergy.com).

In keeping with the overall responsibility for the stewardship of the Company, the Board, through the Audit Committee, examines the Company's internal controls and management information systems and interfaces with the Company's independent financial auditors, Deloitte & Touche, LLP. Management may not engage the Company's financial auditor to perform additional services unrelated to the audit function, unless such engagement has been approved, in advance, by the chairman of the Audit Committee.

Compensation Committee. The members of the Compensation Committee are Messrs. Black (currently the chair), de Combret, de Montal, and Smith. All of the members are Independent Directors and none are sitting CEO's of other companies. The Committee met 2 times in 2009 and 2 times to date in 2010.

The Compensation Committee has four primary responsibilities: (1) to review and report to the Board on the job description and annual goals of the Company's chief executive officer ("**CEO**") and other senior management (2) to review the performance of senior management, as compared to the key annual objectives, and to report its findings to the Board; (3) to determine, review and recommend to the Board (for its approval) the compensation for the CEO and other senior executives; and (4) to ensure that senior compensation policies and packages attract, retain and motivate quality employees while not exceeding market rates. This committee also oversees the Company stock option plan; see section entitled "Stock Options." No Director is permitted to participate in discussions or decisions concerning his own remuneration. Additional information on the committee's process and procedures for consideration of executive compensation are addressed in the section entitled Compensation Discussion and Analysis.

Corporate Governance and Nominating Committee. The members of the Corporate Governance and Nominating Committee are Messrs. de Combret (currently the chair), Wylie, and Zaozirny. All of the members are Independent Directors. The Committee did not meet in 2009, but it has met twice to date in 2010.

This committee is responsible for identifying individuals qualified to become members of the Board and recommending to the Board the Director nominees in advance of each annual general meeting of Shareholders. In identifying candidates, the Corporate Governance and Nominating Committee follows the procedure outlined in the Corporate Governance and Nominating Committee's terms of reference. The Committee is also responsible for developing and recommending corporate governance guidelines to be followed by the Company, and for overseeing the evaluation of the Board and management.

Reserves Committee. The members of the Reserves Committee are Messrs. Black, de Combret, Smith and Wylie (currently the chair.) All of the members are Independent Directors. The Committee met once in 2009 and 3 times to date in 2010.

The purpose of the Reserves Committee is to assist the Board with supervising the Company's reserves evaluation process and public disclosure of hydrocarbon reserves and related information. In this regard, the Committee meets at least twice in a 12-month with the Company's independent reserves engineer, currently Huddleston & Co., Inc. (the "**Reserves Auditor.**") The first meeting precedes the Reserves Auditor's completion of its annual assessment and evaluation of the Company's oil and gas reserves, the "*Annual Reserves Report,*" and the second meeting occurs after the Reserve Auditor's completion of the Annual Reserves Report, but prior to the Reserve Committee's presentation of the Annual Reserves Report to the Board.

#### **Orientation and Continuing Education**

Each new Director receives a briefing on the nature of the Company's business, its corporate strategy and current issues affecting the Company. New Directors are also required to meet with management of the Company to discuss and better understand the Company's business and are advised by legal counsel to the Company of their legal obligations as Directors.

Additionally, the Secretary and General Counsel deliver an annual instructional program for the Board on the topics of its duties and obligations and on principles of effective corporate governance.

The introduction and education process is reviewed on an annual basis and will be revised accordingly.

## Assessments

The Corporate Governance and Nominating Committee has developed a formal program for annually setting management's goals and later for analyzing its performance of those goals. Additionally, that Committee has developed a separate program for reviewing the Board's effectiveness.

## Board Attendance

The Company believes that its Directors should be fully engaged with, and active participants on, its Board. To this end, it expects regular attendance by its Directors at meetings of the full Board and of the four committees on which they serve. Attendance records for 2009 are as follows.

Director's Name	Full Board	Audit Committee	Compensation Committee	Corp. Govern. & Nominating Committee	Reserves Committee
Bernard de Combret (Chairman)	16/16	Note (a)	2/2	Note (c)	1/1
Charles R. Black	12/16	3/4	2/2	N/A	0/1
Olivier de Montal	11/16	N/A	Note (b)	N/A	N/A
Lloyd B. Smith	16/16	N/A	2/2	N/A	1/1
Forrest E. Wylie	12/16	2/4	N/A	Note (c)	1/1
John B. Zaozirny	12/16	4/4	N/A	Note (c)	N/A
Randy L. Bartley (CEO)	16/16	N/A	N/A	N/A	N/A

Notes:

- (a) Mr. de Combret was appointed to the Committee in 2010. He has attended all of the 2010 Committee meetings held to date.
- (b) Mr. de Montal was appointed to the Committee in 2010. He has attended all of the 2010 Committee meetings held to date.
- (c) The Committee did not meet in 2009. It has met twice in 2010 to date, at which all of its members were present.

## COMPENSATION DISCUSSION AND ANALYSIS

### Compensation Objectives

In general, the objectives of the compensation program for the Company's executive officers is to motivate and challenge them to develop and execute the Company's strategy, to align their interest with those of the shareholders and to retain them through the use of long-term incentive plans.

Performance. The base salary and bonuses, if any, paid to the Company's managers are designed to reward annual achievements and be commensurate with the scope or responsibilities, demonstrated leadership abilities and management experience and effectiveness. The Company's other elements of compensation focus on motivating and challenging the executive to achieve superior, longer-term, sustained results.

Alignment. The Company seeks to align the interest of its executives with those of its investors by evaluating executive performance on the basis of key financial measurements, which it believes closely correlate to long-term shareholder value, including revenue, organic revenue, cost containment, operating profit, earnings per share, operating margins, return on total equity (or total capital), cash flow from operating activities and total shareholder return. One of the key elements of the Company's executive compensation plan aligns the interest of the Company's executives with those of its shareholders through the granting of incentive compensation rights (see sections on Stock Options, Restricted Stock and Stock Appreciation Rights (SAR's), based on annual performance evaluations.

Retention. The Company operates in a highly competitive and open industry where its executives are likely to be presented with other professional opportunities. The Company attempts to retain its executives by (1) staying current on the compensation levels within the industry and (2) using continued service as a determinate of total pay opportunity. A key element of the Company's executive compensation plan is the extended vesting terms on its long-term incentive plans, a factor which promotes continuity of management by requiring an executive's longer-term service in order for him or her to receive any, or maximum, payout on his or her awards.

### **Use of Compensation Consultant and Benchmark**

The Company first retained an independent compensation consultant ("**ICC**"), Longnecker & Associates, in 2008, to conduct an independent compensation review and assist the Compensation Committee in making its determination and recommendations to the Board regarding both executive compensation and Independent Director fees. The Company again used Longnecker in 2009; Longnecker was paid \$33,500 for its services in 2009.

In its retainer, the ICC was instructed to provide the Committee with: (1) information regarding market trends on executive compensation for comparably-sized oil and gas companies (with emphasis on international exploration & production companies); (2) market comparators and benchmark data; (3) its analysis of specific issues related to compensation and compensation programs; (4) its review of the Company's compensation plan to ensure market competitiveness and compliance with industry standards.

In 2009, our executive officers' compensation was compared to that of an international peer group, which was comprised of 11 comparably-sized international E&P companies, and that was used as a reference for comparing executive compensation levels.

The members of the international peer group were as follows:

Berry Petroleum Company (NYSE: BRY)	Delta Petroleum Corporation (Nasdaq: DPTR)
ATP Oil & Gas (Nasdaq: ATPG)	Goodrich Petroleum Corp (NYSE: GDP)
Bill Barret Corp (NYSE: BBG)	Salamander Energy Plc (LSE: SMDR)*
Carrizo Oil & Gas, Inc. (Nasdaq: CRZO)	BPZ Resources, Inc. (NYSE: BPZ)*
Rosetta Resources (Nasdaq: ROSE)	Ithaca Energy Inc. (AIM / TSX:-V: IAE)*
PetroQuest Energy, Inc (NYSE: PQ)	

\* Denotes international comparator company

### **Relationship of Pay to Performance**

The decisions taken by the Compensation Committee and the Board are its responsibility, and may reflect factors and considerations other than the information and recommendations provided by the ICC, including the accomplishment of both the Company's annual goals and the executive's individual goals. To this end, accomplishments of the 2009 Company goals were taken into account in the Board's determination of 2010 executive compensation.

After due consideration of the Company's annual goals for 2009 (see following *table 2009 Corporate Goals & Resulting Performance*), the Compensation Committee concluded that the Company fully achieved its performance goals and, accordingly, the Board has approved a top rating for the Company's performance in 2009. Using analysis and recommendations from the ICC, the Compensation Committee proposed, and the Board decided, that the annual performance bonuses and long-term incentives awarded for 2009, would be in the 75<sup>th</sup> percentile of the international peer group, corresponding to exceptional performance.

<b>2009 Corporate Goal</b>	<b>Resulting Performance</b>
1. Recommence Company's offshore development and exploration program	Program recommenced in September 2009 and continues to current date.
2. Minimize stock dilution while keeping leverage conservative	The Company accessed the equity and debt markets on 3 occasions in 2009, raising USD \$64.5 million. This combined impact was to lower the Company's debt to total capital ratio from 28% to 16%, at a cost of a 16% dilution in stockholder equity.
3. Maximize stock price performance.	The Company's share price increased 139% during 2009, and ranked 1 <sup>st</sup> on a 12-month basis and 3 <sup>rd</sup> on a year-to-date basis, when compared with 21 international E&P Peer companies (see table below.)
4. Commence development of the Bua Ban Field.	Installation of the well head and central processing facilities began in late 2009. Commencement of actual drilling of production and injection wells is scheduled for mid-year 2010, with 1 <sup>st</sup> oil expected during the 3rd quarter of 2010.
5. Achieve zero reportable health and safety ("HSE") incidents in 2009.	No reportable HSE incidents occurred in 2009

The following table was proposed by the ICC and used by the Compensation Committee to determine stock price performance (#3 above) and includes stock price information from November 4, 2008 through November 4, 2009:

<b>Name</b>	<b>Symbol</b>	<b>Performance</b>	
		<b>YTD</b>	<b>12 Month</b>
Max Petroleum	MXP.L	614%	17%
Afren	AFR.L	255%	79%
<b>Coastal Energy</b>	<b>CEN.V</b>	<b>221%</b>	<b>139%</b>
Bowleven	BLVN.L	205%	-28%
Antrim	AEN.TO	182%	65%
Valiant Petroleum	VPP.L	163%	65%
Faroe Petroleum	FPM.L	139%	78%
Salamander Energy	SMDR.L	100%	56%
Gulfsands Petroleum	GPX.L	85%	88%
Melrose Resources	MRS.L	76%	62%
Sterling Energy	SEY.L	68%	17%
Serica Energy	SQZ.V	64%	10%
Providence Resources	PVR.L	59%	48%
Hardy Oil & Gas	HDY.L	58%	24%
JKX Oil & Gas	JKX.L	53%	44%
Pan Orient Energy	POE.V	47%	-6%
Roc Oil Company	ROC.L	34%	-6%
Dana Petroleum	DNX.L	26%	26%
Geopark Holdings	GPK.L	10%	1%
Imperial Energy	IEC.L	0%	46%
Oilexco	OIL.TO	0%	-94%
Urals Energy	UEN.L	-37%	16%

## Elements used to Achieve Compensation Objectives

The following table summarizes the various elements of the Company's executive compensation plan, how they are determined, and how each of them fit into the overall compensation objectives.

Compensation Element	How it is Paid	Performance Period	Determination of Element	Alignment / Fit with Compensation Objectives
Base Salary	Cash	Annual	Salaries are benchmarked to be the 75th percentile of the Comparator Group for exceptional performance and the 50th percentile for acceptable performance and are linked to the performance, scope of responsibilities and experience of each executive.	- Attract and retain highly qualified leaders; benchmarking against the Comparator Group ensures base pay is competitive
Annual Performance Incentive (Bonus)	Cash	Annual	Target awards are based on the executive's level in the Company and are benchmarked to the 75th percentile of the Comparator Group for exceptional performance and the 50th percentile for acceptable performance; actual payouts are based on achievement of corporate and individual objectives.	- Attract and retain highly qualified leaders through an opportunity to earn market competitive level of cash incentives based on annual performance  - Motivate high corporate and individual performance
Long-Term Incentives	Incentive Stock Options	Annual / Up to 3 years	ISOs are granted based on the executive's level in the Company, with the value targeted at the 75th percentile of the Comparator Group for exceptional performance and the 50th percentile for acceptable performance. ISOs currently vest 33% on each of the 1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> anniversary of the grant date.	- Align executive and shareholder interests over the longer term, actual value realized depends upon share price performance.  - Attract and retain highly qualified leaders by providing a competitive incentive opportunity
	Restricted Stock Plan <sup>(1)</sup> (proposed)	Annual / Up to 3 years	RSU are granted based on the executive's level in the Company, with the value targeted at the 75th percentile of the Comparator Group for exceptional performance and the 50th percentile for acceptable performance. RSUs vest 33% on each of the 1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> anniversary of the grant date. 20% of the RSUs granted to executives are based on achievement of corporate objectives.	- Align executive and shareholder interests over the longer term, actual value realized depends upon share price performance.  - Attract and retain highly qualified leaders by providing a competitive incentive opportunity
	Stock Appreciation Rights – Cash Payout <sup>(1)</sup>	Annual / Up to 3 years	SARs are granted based on the executive's level in the Company, with the value targeted at the 75th percentile of the Comparator Group for exceptional performance and the 50th percentile for acceptable performance. SARs currently vest and are paid 33% on each of the 1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> anniversary of the grant date. 20% of the SARs granted to executives are based on achievement of corporate objectives.	- Align executive and shareholder interests over the longer term, actual value realized depends upon share price performance.  - Attract and retain highly qualified leaders by providing a competitive incentive opportunity
Pensions	Retirement Savings Plan		The Company provides a retirement savings plan in which the executives may elect to participate. The Company's matching contributions are designed to be market competitive.	- Attract and retain highly qualified leaders. Provide an appropriate risk management balance to an otherwise highly-performance based pay package.

Note (1): See proposal #4 in section entitled *Particular Matters to be Acted Upon*.

**Base Salary.** Base salaries depend on the scope of the employees' responsibilities, their performance of those responsibilities, and the period over which they have performed. Decisions regarding salary increases also take into account each employee's current salary and the amounts paid to the employee's peers within and outside the Company. Base salaries are reviewed annually, but are not automatically increased if management or the Compensation Committee (the latter, in the case of Named Executive Officers) believes that other elements of compensation are more appropriate in light of the Company's stated objectives. This

strategy is consistent with the Company's primary intent of offering compensation that is contingent on the achievement of performance objectives.

**Bonus.** Annually, the Compensation Committee, with input from the CEO, uses its discretion in determining the amount and allocation of bonuses the Company will pay, based on its evaluation of the overall performance of the Company and the performance of the employees against individual goals, which were established at the beginning of the relevant year. This strategy rewards high-performing employees, thereby providing individual economic incentives, which hopefully drive results and sustain each employee's performance over the longer-term.

**Stock Options.** The Company has a "**Stock Option Plan**", which is designed to align the interests of its Directors and employees with those of its shareholders' and to retain the Directors and employees through the term of the awards. The size of each stock option grant, as compared to the perceived value of an employee's services, is considered when making award decisions. The amount of equity incentive compensation granted in 2009 was based on a peer review performed by a third-party consultant, as well as the strategic, operational and financial performance of the Company overall, and it reflected each of the recipient's expected contributions to the Company's future success. Existing ownership levels are not a factor in award determinations, as the Company does not want to discourage Directors and employees from holding significant amounts of the Company's stock.

Under Canadian *generally accepted accounting principles* ("**GAAP**") the Company expenses stock option grants using the "*fair value*" method of accounting. Under the fair value method, employee compensation expense attributed to direct awards of stock is measured at the fair value of the award at the grant date using the Black-Scholes option pricing model and is recognized over the vesting period of the award. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are credited to share capital.

**Restricted Stock.** The Board has proposed the establishment of a "**Restricted Stock Unit Plan**" (see #4 in the section entitled "**Particulars of Matters to be Acted On**"), the details of which are set forth in Appendix "D". Like the Company's Stock Option Plan, the proposed Restricted Stock Unit Plan would work to align the economic interests of Directors and employees with those of shareholders. The determinants of grants of restricted stock would be based on the same considerations set forth above in the description of the Stock Option Plan.

At the 2008 AGM, the Company's shareholders approved a resolution establishing the current stock option plan. This plan includes a provision that the maximum options outstanding at any given point in time would not exceed the equivalent of 15,000,000 shares of the Company's common stock. As set forth in Exhibit "D", the total of grants issued under the Restricted Stock Unit Plan would be subject to the same numerical limit. That is to say, the combined total of stock option and restricted stock grants outstanding would not exceed the equivalent of 15,000,000 shares of the Company's common stock at any given point in time.

Contingent on shareholder approval of the Restricted Stock Unit Plan, the Company would significantly replace the issuance of future SARs grants with Restricted Stock Units (See next section entitled **Stock Appreciation Rights ("SARs")**). This would improve the Company's cash flow (Restricted Stock awards are paid in equity and not cash) and provide the Compensation Committee additional flexibility in how to reward employee performance.

**Stock Appreciation Rights ("SARs").** During 2008, the Company introduced a cash-settled SARs plan. The compensation cost for SARs granted to employees under this plan is accounted for using the fair value method. Under the fair value method, employee compensation expense attributed to SARs is measured at the fair value of the excess of the market price of the award at the grant date over the price of the SARs granted using the Black-Scholes option pricing model and is recognized over the vesting period of the award. The expense is further adjusted at each balance sheet date for the effect of changes in the underlying price of the Company's Shares.

Since its establishment, the Company has awarded SARs under its plan for the equivalent of approximately 3,000,000 shares, of which approximately 400,000 shares are contingent upon the achievement of certain performance goals established by the Company. These awards vest 33.3% on each of the subsequent anniversaries of the date the award was granted. The amount of the SARs granted was based on a peer review performed by a third party consultant, as well as the strategic, operational and financial performance

of the Company overall, and it reflected each of the recipient's expected contributions to the Company's future success.

As stated above (see section entitled Restricted Stock), the Board recommend significantly replacing the future grants of SAR awards with Restricted Stock Units, contingent upon Shareholder approval of the Restricted Stock Unit Plan (See #4 in the section entitled "Particulars of Matters to be Acted On" and Appendix "D.")

Pension Plans. The Company has neither a "defined benefit", nor a "defined contribution" type of retirement plan in place. Rather, the Company established a voluntary, non-discriminatory, retirement-savings plan under the United States Internal Revenue Code Section 401(k) ("**401(k) Plan**") for its US based employees. Under the Company's 401(k) Plan, employees may elect to participate by having a certain percentage of their pre-taxed earnings contributed into their tax deferred retirement account. The Company then matches the individual employee's contribution up to 5% of the individual employee's earnings, with certain exceptions for highly compensated employees. Each employee is immediately vested in their own contributions as well as the Company matching contributions. Each employee determines the investments for their own account.

Perquisites. In addition to cash and equity compensation, the Company provides employees certain personal benefits, consistent with similar benefits and coverage for employees within the jurisdiction under which they are employed. These benefits include the Company's co-pay of the premiums for medical benefit programs, long and short term disability coverage, life insurance, an annual medical examination, long-term care insurance, travel insurance and employee overseas travel-assistance program. These benefits are non-discriminatory and available to all employees within that jurisdiction. Where the Company has paid discriminatory benefits to Named Executive Officers, the nature of the discriminatory benefit is disclosed in the notes to the summary compensation table.

#### **Compensation for Named Executive Officers ("NEOs") in 2009**

The Company had six officers at 2009 year's end, of which three are considered Named Executive Officers ("**NEO's**") by virtue of their title (the Chief Executive Officer ("**CEO**"), the Chief Financial Officer ("**CFO**"), and the Vice President, Operations, and Resident Manager, Thailand ("**RM**").

#### **Summary Compensation Table**

The following table provides information on the compensation of the Company's NEOs during the years ended December 31, 2009, 2008 and 2007.

Name and principal position	Year	Salary (\$)	Share-based Awards (\$)	Option based Awards (\$)	Non-equity incentive plan compensation (\$)		Pension Value (\$)	All other Compensation (\$) <sup>(d)</sup>	Total Compensation (\$)
					Annual Incentive plans	Long-term incentive plans			
<b>Randy L. Bartley</b> <sup>(a)</sup> President and Chief Executive Officer	2009	425,000	N/A	1,502,758	814,214	1,475,257	12,250	19,573	4,249,052
	2008	384,861	N/A	1,037,616	608,500	425,000	12,813	14,347	2,483,137
	2007	Nil	N/A	Nil	Nil	Nil	Nil	Nil	Nil
<b>Frank A. Inouye</b> <sup>(b)</sup> Former President and Executive Chairman	2009	Nil	N/A	Nil	Nil	Nil	Nil	Nil	Nil
	2008	384,208	N/A	Nil	Nil	Nil	Nil	579,096	963,304
	2007	396,004	N/A	190,591	82,080	Nil	Nil	33,970	702,645
<b>William C. Phelps</b> Chief Financial Officer	2009	287,029	N/A	501,673	275,000	492,492	12,250	19,296	1,587,740
	2008	254,560	N/A	199,848	165,000	200,000	14,542	17,216	851,166
	2007	248,300	N/A	136,137	53,849	Nil	Nil	11,756	450,042
<b>John M. Griffith</b> <sup>(c)</sup> Vice President, Operations Thailand Resident Manager	2009	261,667	N/A	356,525	270,000	349,999	Nil	15,067	1,253,258
	2008	213,542	N/A	346,372	150,000	167,500	Nil	10,112	887,526
	2007	Nil	N/A	Nil	Nil	Nil	Nil	Nil	-

#### Notes

- Mr. Bartley was appointed President and Chief Executive Officer on February 2, 2008. As an employment inducement he was paid a sign-on bonus of \$212,500 and he was granted 1,000,000 incentive stock options valued at \$612,870.
- Mr. Inouye was appointed Chairman when Mr. Bartley was hired. Effective December 9, 2008, Mr. Inouye resigned from the Company. As part of his separation, Mr. Inouye received \$545,126, which is included in "all other compensation."
- Mr. Griffith was employed by the Company effective February 23, 2008. As an employment inducement he was granted 100,000 incentive stock options valued at \$178,652.
- All NEOs received non-discriminatory perquisites with aggregate value less than \$50,000. For Mr. Inouye, this column includes his severance payment for 2008 and car allowance of \$26,304 for 2008 (2007: \$33,970.)

## Incentive Plan Awards

The following table sets forth all equity-based incentive plan awards outstanding as of December 31, 2009. Option based awards were granted at fair market value prior to the award date. For additional information on the option awards, see the 2008 Stock Option Plan filed on Sedar at [www.sedar.com](http://www.sedar.com). "In-the-Money" Options are those where the market value of the underlying securities exceeds the option exercise price and are computed irrespective of whether or not the award is vested and can be exercised by the recipient.

Name	Share Based Awards		Option Based Awards <sup>(a)</sup>				Long-term Incentive (SARs) Plan <sup>(b)</sup>		
	Number of shares or units of shares that have not vested (#)	Market or payout value of share based awards that have not vested (\$)	Number of securities underlying unexercised options (#)	Option exercise price	Option expiration date	Value of unexercised in-the-money options (\$)	Number of SARs which have not vested (#)	Vested Date	Market or payout value of SARs that have not vested (\$)
Randy L. Bartley	N/A	N/A	1,000,000	C\$3.94	05-Feb-13	1,299,480	127,628	02-Jan-10	645,798
			780,000	C\$1.35	01-Jan-14	2,943,896	127,627	26-Dec-10	645,793
			1,100,937	C\$5.13	30-Nov-14	178,831	127,628	26-Dec-11	645,798
							99,949	01-Dec-10	505,742
							99,950	01-Dec-11	505,747
						99,950	01-Dec-12	505,747	
Totals			<b>2,880,937</b>			<b>4,422,206</b>	<b>682,732</b>		<b>3,454,625</b>
William C. Phelps	N/A	N/A	250,000	C\$2.20	27-Dec-11	740,513	60,060	02-Jan-10	303,904
			250,000	C\$3.94	25-Jan-13	324,870	60,060	26-Dec-10	303,904
			367,000	C\$1.35	01-Jan-14	1,385,141	60,060	26-Dec-11	303,904
			366,531	C\$5.13	30-Nov-14	59,537	33,366	01-Dec-10	168,832
							33,367	01-Dec-11	168,837
						33,367	01-Dec-12	168,837	
Totals			<b>1,233,531</b>			<b>2,510,061</b>	<b>280,280</b>		<b>1,418,218</b>
John M. Griffith	N/A	N/A	100,000	C\$4.44	06-May-13	82,173	50,300	02-Jan-10	254,518
			308,000	C\$1.35	01-Jan-14	1,162,461	50,300	26-Dec-10	254,518
			261,194	C\$5.13	30-Nov-14	42,427	50,301	26-Dec-11	254,523
							23,712	01-Dec-10	119,983
							23,713	01-Dec-11	119,988
						23,713	01-Dec-12	119,988	
Totals			<b>669,194</b>			<b>1,287,061</b>	<b>222,039</b>		<b>1,123,518</b>

### Notes

- (a) Options granted before 9/26/06 vested 100% immediately upon grant. Options granted after 9/26/06 and before January 1, 2009 vested 25% immediately upon grant and 25% each year for three years on the anniversary of the grant date. Options granted after January 1, 2009 vest 33% each year for three years on the anniversary of the grant date.
- (b) The SARs granted to the NEOs are 80% firm and 20% contingent upon Company performance goals. The initial grant in January 2009 was for 2008 performance and originally vested and was to be paid 33% on each anniversary of the grant date. In January 2010, the Board decided to accelerate the remaining two vesting dates for this grant to better align with the 2009 performance grant. The market price is based on the value of the Company's common stock at 31 December 2009.

## Incentive Plan Awards – Value Vested or Earned During the Year 2009

The following table sets forth the value of all share-based and option-based awards that would have been realized had the NEO exercised the award on its vesting date in 2009. The non-equity incentive plan awards for the year ended December 31, 2009 are set forth on the summary compensation table mentioned above. The annual non-equity incentive plans (bonuses) are fixed in value. No long-term non-equity incentive plans (SARs) vested during the year ended December 31, 2009, see Note (b) to the table immediately above.

Name	Value Vested During the Year	
	Share Based Awards (\$)	Option Based Awards (\$)
Randy L. Bartley	N/A	Nil
William C. Phelps	N/A	185,337
John M. Griffith	N/A	Nil

## Retirement Savings Plan

The following table sets forth the participation of the NEOs in the Company's voluntary contribution retirement plan for the year ended December 31, 2009.

Name	Accumulated value at start of year (\$)	Compensatory (\$)	Non-compensatory (\$)	Accumulated value at end of year (\$)
Randy L. Bartley	23,154	Employer: 13,750 Dividends: 441 Change in Value: 7,759	Employee: 22,000 Dividends: 705 Change in Value: 12,414	80,223
William C. Phelps	24,550	Employer: 12,260 Dividends: 257 Change in Value: 11,763	Employee: 16,500 Dividends: 345 Change in Value: 15,829	81,504
John M. Griffith	N/A	N/A	N/A	N/A

## Employment Contracts and Termination and Change in Control Benefits

The Company has employment contracts with all three current NEOs. The following summarizes these employment agreements:

Mr. Bartley entered into a two-year employment agreement dated January 1, 2009 in respect of his employment by the Company as its Chief Executive Officer. This agreement contains a standard non-competition and confidentiality provision.

Mr. Phelps entered into a two-year employment agreement dated February 1, 2009 in respect of his employment by the Company as its Chief Financial Officer. This agreement contains standard non-competition and confidentiality provision.

Mr. Griffith entered into a one-year employment agreement dated June 1, 2009 in respect of his employment by the Company as its Vice President, Operations and Resident Manager, Thailand. This agreement contains standard non-competition and confidentiality provision.

## Compensation Upon Change of Control

All three employment contracts discussed above provide that the NEO "shall be entitled to resign from his employment by the Company within 90 days of a *"Change of Control"* event, in which case his resignation shall be considered a termination without cause, and he shall be entitled to receive the compensation upon termination" set forth elsewhere in the contract (see section entitled *"Compensation upon Termination of Employment"* on the next page).

The contracts further state "Change of Control shall mean:

- (i) Any transaction or series of transactions, whether by way of consolidation, amalgamation or merger of the Corporation, with or into any other corporation, or any transfer, conveyance, sale, lease, exchange or otherwise, of all or substantially all of the assets of the Corporation to any person;
- (ii) The passing of a resolution by the Board or the shareholders of the Company to liquidate the assets in one or more transactions;
- (iii) Any acquisition or series of acquisitions, by transfer of shares, directly or indirectly, and by any means whatsoever by any person or by a group of persons, acting jointly or in concert, of that number of voting shares of the Corporation which is equal to or greater than 20% of the total issued and outstanding voting shares immediately after such acquisition; or
- (iv) The Board of the Corporation, in circumstances where a Change of Control is in their view, acting reasonably, a certainty, by resolution deems that a Change of Control of the Corporation has occurred or is about to occur."

## Compensation upon Termination of Employment

In the event an NEO ceases to be an employee due to resignation, retirement, termination without cause or change of control, they will receive specific compensation as summarized below:

	Resignation	Retirement	Termination without Cause	Change of Control
Severance	None	None	24 months for the CEO and CFO (12 months for the RM) at the NEO's current base monthly salary plus \$10,000 for financial, legal or outsourcing services.	24 months for the CEO and CFO (12 months for the RM) at the NEO's current base monthly salary plus \$10,000 for financial, legal or outsourcing services.
Annual Incentive Plan Award (Bonus)	Forfeited	If awarded, received; if not awarded, prorated portion possible.	If awarded, received; if not awarded, prorated portion possible.	If awarded, received; if not awarded, prorated portion possible.
Incentive Stock Options (ISOs)	- 180 days to exercise vested awards on or before the expiry date, whichever comes first. - Unvested awards are forfeited	- 180 days to exercise vested awards on or before the expiry date, whichever comes first. - Unvested awards are forfeited	- All awards become fully vested. - 180 days to exercise vested awards on or before the expiry date, whichever comes first.	- All awards become fully vested. - 180 days to exercise vested awards on or before the expiry date, whichever comes first.
Long-term Incentive Plan Award (SARs)	All unvested awards are forfeited.	All unvested awards are forfeited.	All awards become fully vested and payable.	All awards become fully vested and payable.
Restricted Stock Plan (Proposed)	Forfeited	For grants issued prior to retirement, RSU to be issued on vesting date as if employee had continued employment until Release Date.	Forfeited unless otherwise provided in employment contract	Awards become fully vested. Shares or value thereof to be paid within 10 business days following change of control
Benefits	- Terminate upon resignation, - Some benefits are "portable" at the option of the employee	- Terminate upon resignation, - Some benefits are "portable" at the option of the employee	Remain in effect for the earlier of i) 6 full months; or ii) eligibility to participate in a comparable group plan maintained by a subsequent employer	Remain in effect for the earlier of i) 6 full months; or ii) eligibility to participate in a comparable group plan maintained by a subsequent employer
Retirement Plan	No additional value	No additional value	Equal to the value of the contributions over the severance period	Equal to the value of the contributions over the severance period
Other Perquisites	Forfeited	Forfeited	Forfeited	Forfeited

The following table summarizes the estimated incremental value of termination payments for each NEO assuming each of the following termination events had occurred as of December 31, 2009. There are no incremental costs associated with voluntary resignations.

Name	Payable on Retirement (\$)	Payable on Termination without Cause (\$)	Payable on Change of Control (\$)
<b>Randy L. Bartley</b>	N/A	860,000	860,000
<b>William C. Phelps</b>	N/A	590,000	590,000
<b>John M. Griffith</b>	N/A	280,000	280,000

## Management Contracts

The Company is not party to any management contracts, except with respect to oversight of a limited number of overseas contracts for fabrication and/or operation of offshore production equipment or facilities, in circumstances where the Company believes it is better served by retention of service contractors or consultants, rather than deployment of employees, to oversee the work of the foreign contractor. No management functions of the Company are to any substantial degree performed by a person or company other than the Directors or senior officers of the Company.

## Securities Authorized for Issuance Under Equity Compensation Plans

EQUITY COMPENSATION PLAN INFORMATION			
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans [excluding securities reflected in column (a)] (c)
Equity compensation plans approved by Shareholders (see "2008 Share Option Plan")	9,631,187	\$3.01	5,368,813
Equity compensation plans not approved by Shareholders	Nil	N/A	Nil
Totals	9,631,187	\$3.01	5,368,813

Note: The number of securities in the above chart is as of May 28, 2010, while the weighted average exercise price is as of March 31, 2010.

## Indebtedness of Directors and Officers

During the fiscal year ended December 31, 2009, no Director, executive officer, senior officer, promoter or nominee for Director of the Company or any of their Associates has been indebted to the Company or any of its subsidiaries, nor have any of these individuals been indebted to another entity which indebtedness is the subject of a guarantee, supporting agreement, letter of credit or other similar arrangement or understanding provided by the Company.

## Directors and Officers Liability Insurance

The Company carries on its own behalf, and on behalf of its subsidiaries, a Directors' and Officers' liability insurance policy. This policy has an annual aggregate coverage limit of \$50,000,000. The overall policy has a zero deductible for Directors and officers (applicable when the Company is not legally permitted to or cannot indemnify the Directors and officers) and a \$100,000 corporate deductible for all claims involving a Canadian securities claim. The total premium paid in 2009 for this policy was \$81,136.

## Information on Stock Ownership

The following table sets forth the shareholdings of the Company's Directors and named executive officers as of June 1, 2010.

Name	Director or Officer	Stock Held <sup>(a)</sup>	Voting Power <sup>(b)</sup>	Total
C Robert Black	Independent Director	Nil	5,594,930	5,594,930
Bernard de Combret	Independent Director	1,071,975	5,594,930	6,666,905
Oliver de Montal	Independent Director	32,500	5,594,930	5,627,430
Lloyd Barnaby Smith	Independent Director	Nil	5,594,930	5,594,930
Forrest E. Wylie	Independent Director	1,100,000	5,594,930	6,694,930
John B. Zaozirny	Independent Director	75,000	5,594,930	5,669,930
Randy L. Bartley	Director, CEO & President	1,035,000		1,035,000
William C. Phelps	Chief Financial Officer	1,210,000		1,210,000
John M. Griffith	VP, Operations & RM	Nil		Nil
	Totals	4,524,475	33,569,580	38,094,055

Notes

- (a) This column lists stock held either directly or indirectly. No Director or executive officer owns more than 1.10% of the total outstanding shares, nor do all Directors and executive officers as a group own more than 4.13% of the total outstanding shares of 99,380,720
- (b) This column represents the proportionate shares each "attorney" may vote of the total shares owned by Oscar S. Wyatt, Jr., which under an agreement with the Toronto Stock Exchange are held in a voting trust. This voting trust is more fully explained in the Company's AIF dated June 15, 2007 and filed with SEDAR. These shares represent 30.74% of the total shares outstanding.

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## Compensation of Independent Directors

As discussed above, the Compensation Committee employs an outside consulting firm to review and recommend competitive compensation for the Board. In 2009, the compensation package for the Independent Directors included 1) cash fees for Board and committee membership and attendance and 2) SARs awards.

During 2009, the Company had only one Executive Director, Mr. Bartley. All of his compensation is provided for in his capacities as President and Chief Executive Officer and is reported under the section entitled Compensation for Named Executive Officers.

### Independent Directors' Fees

Independent Directors receive an annual retainer for participating on the Board and its committees. They also receive a fee for every meeting attended whether by telephone or in person. All retainers and meeting fees are determined in United States dollars; however, Independent Directors living outside the United States may receive their fees converting into their resident currencies. Independent Directors are reimbursed for travel and out-of-pocket expenses related to the Board and committee meetings. The table below sets out the 2009 fee schedule for Independent Directors.

	Board Chair (\$)	Board Member (\$)	Committee Chair <sup>(a)</sup> (\$)	Committee Member (\$)	Audit Committee Chair (\$)	Audit Committee Member (\$)
Cash Retainer	200,000	30,000	5,000	2,500	10,000	2,500
Attend Meeting in Person	1,500	1,500	1,500	1,500	1,500	1,500
Attend Meeting via Telephone	500	500	500	500	500	500

Note (a) Refers to the Corporate Governance and Nominating; Compensation; and Reserves Committees of the Board

### Independent Director Compensation Table

The following table sets forth all annual and long term compensation for services provided by the independent Directors of the Company for the year ended December 31, 2009.

Name	Year	Fees Earned (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Pension Value (4)	All other Compensation (\$)	Total Compensation (\$)
C. Robert Black	2009	50,750	N/A	Nil	100,000	N/A	Nil	150,750
	2008	52,500	N/A	Nil	100,000	N/A	Nil	152,500
	2007	30,000	N/A	Nil	Nil	N/A	Nil	30,000
Bernard de Combret	2009	222,400	N/A	Nil	150,000	N/A	Nil	372,400
	2008	86,375	N/A	272,273	150,000	N/A	Nil	508,648
	2007	40,000	N/A	Nil	Nil	N/A	Nil	40,000
Olivier de Montal	2009	35,500	N/A	Nil	100,000	N/A	Nil	135,500
	2008	35,542	N/A	Nil	100,000	N/A	Nil	135,542
	2007	31,500	N/A	Nil	Nil	N/A	Nil	31,500
John J. Murphy <sup>(a)</sup>	2009	15,000	N/A	Nil	Nil	N/A	Nil	15,000
	2008	47,458	N/A	Nil	100,000	N/A	Nil	147,458
	2007	36,500	N/A	Nil	Nil	N/A	Nil	36,500
L. Barnaby Smith	2009	43,400	N/A	Nil	100,000	N/A	Nil	143,400
	2008	43,500	N/A	Nil	100,000	N/A	Nil	143,500
	2007	33,750	N/A	Nil	Nil	N/A	Nil	33,750
Forrest E. Wylie	2009	49,750	N/A	Nil	100,000	N/A	Nil	149,750
	2008	46,500	N/A	Nil	100,000	N/A	Nil	146,500
	2007	32,500	N/A	Nil	Nil	N/A	Nil	32,500
John B. Zaozirny	2009	48,500	N/A	Nil	100,000	N/A	Nil	148,500
	2008	49,500	N/A	Nil	100,000	N/A	Nil	149,500
	2007	37,500	N/A	Nil	Nil	N/A	Nil	37,500

Note (a): Mr. Murphy retired from the Board effective May 1, 2009.

## Independent Director's Incentive Plan Awards

The following table sets forth all equity-based incentive plan awards outstanding as of December 31, 2009. Option-based awards were granted at fair market value prior to the award date. For additional information on the option awards, see the 2008 Stock Option Plan filed with SEDAR at [www.sedar.com](http://www.sedar.com). "In-the-Money" Options are those where the market value of the underlying securities exceeds the option exercise price and are computed irrespective of whether or not the award is vested and can be exercised by the recipient.

Name	Share Based Awards		Option Based Awards <sup>(a)</sup>				Long-term Incentive (SARs) Plan <sup>(b)</sup>		
	Number of shares or units of shares that have not vested (#)	Market or payout value of share based awards that have not vested (\$)	Number of securities underlying unexercised options (#)	Option exercise price	Option expiration date	Value of unexercised in-the-money options (\$)	Number of SARs which have not vested (#)	Vested Date	Market or payout value of SARs that have not vested (\$)
C. Robert Black	N/A	N/A	250,000	C\$2.20	27-Dec-11	740,513	30,030 30,030 30,030 6,775 6,775 6,775	02-Jan-10 26-Dec-10 26-Dec-11 01-Dec-10 01-Dec-11 01-Dec-12	151,952 151,952 151,952 34,282 34,282 34,282
Totals			250,000			740,513	110,415		558,702
Bernard de Combret	N/A	N/A	250,000 500,000	C\$2.20 C\$1.35	27-Dec-11 01-Jan-14	740,513 1,887,112	45,045 45,045 45,045 10,162 10,163 10,163	02-Jan-10 26-Dec-10 26-Dec-11 01-Dec-10 01-Dec-11 01-Dec-12	227,928 227,928 227,928 51,420 51,425 51,425
Totals			750,000			2,627,625	165,623		838,054
Olivier de Montal	N/A	N/A	250,000	C\$2.20	27-Dec-11	740,513	30,030 30,030 30,030 6,775 6,775 6,775	02-Jan-10 26-Dec-10 26-Dec-11 01-Dec-10 01-Dec-11 01-Dec-12	151,952 151,952 151,952 34,282 34,282 34,282
Totals			250,000			740,513	110,415		558,702
John J. Murphy <sup>(c)</sup>	N/A	N/A	250,000	C\$2.20	01-May-10	740,513	24,024 0 0	02-Jan-10 26-Dec-10 26-Dec-11	60,909 0 0
Totals			250,000			740,513	24,024		60,909
L. Barnaby Smith	N/A	N/A	250,000	C\$2.20	27-Dec-11	740,513	30,030 30,030 30,030 6,775 6,775 6,775	02-Jan-10 26-Dec-10 26-Dec-11 01-Dec-10 01-Dec-11 01-Dec-12	151,952 151,952 151,952 34,282 34,282 34,282
Totals			250,000			740,513	110,415		558,702
Forrest E. Wylie	N/A	N/A	250,000	C\$2.20	27-Dec-11	740,513	30,030 30,030 30,030 6,775 6,775 6,775	02-Jan-10 26-Dec-10 26-Dec-11 01-Dec-10 01-Dec-11 01-Dec-12	151,952 151,952 151,952 34,282 34,282 34,282
Totals			250,000			740,513	110,415		558,702
John B. Zaozimy	N/A	N/A	50,000 250,000	£1.40 C\$2.20	06-Jul-10 27-Dec-11	139,980 740,513	30,030 30,030 30,030 6,775 6,775 6,775	12-Feb-10 12-Feb-11 12-Feb-12 01-Dec-10 01-Dec-11 01-Dec-12	151,952 151,952 151,952 34,282 34,282 34,282
Totals			300,000			880,493	110,415		558,702

### Notes

- Options granted before 9/26/06 vested 100% immediately upon grant. Options granted after 9/26/06 and before 1/01/09 vested 25% immediately upon grant and 25% each year for three years on the anniversary of the grant date. Options granted after 1/01/09 vest 33% each year for three years on the anniversary of the grant date.
- The SARs granted to the Directors are 80% firm and 20% contingent upon Company performance goals. The initial grant in January 2009 was for 2008 performance and originally vested and was to be paid 33% on each anniversary of the grant date. In January 2010, the Board decided to accelerate the remaining two vesting dates for this grant to better align with the 2009 performance grant. The Market price is based on the value of the Company's common stock at 31 December 2009.
- Mr. Murphy retired from the Board effective May 1, 2009. His originally SARs grant would have been forfeited. The Board agreed to accelerate the vesting on the firm portion of the first tranche of his SARs award. The amount reported represents the cash payment he received as a result of the accelerated vesting. In addition, the Board extended his expiry date on his options until May 1, 2010.

### Independent Directors' Incentive Plan Awards – Value Vested or Earned During the Year 2009

The following table sets forth the value of all share-based and option-based awards that would have been realized had the Director exercised the award on its vesting date in 2009. The non-equity incentive plan awards for the year ended December 31, 2009 are set forth on the summary compensation table. No long-term, non-equity incentive plans (SARs) vested during the year ended December 31, 2009, see Notes (b) and (c) to the table immediately above.

Name	Value Vested During the Year	
	Share Based Awards (\$)	Option Based Awards (\$)
C. Robert Black	N/A	185,337
Bernard de Combret	N/A	199,791
Olivier de Montal	N/A	185,337
John J. Murphy <sup>(a)</sup>	N/A	185,337
L. Barnaby Smith	N/A	185,337
Forrest E. Wylie	N/A	185,337
John B. Zaozirny	N/A	185,337

Note (a): Mr. Murphy retired from the Board effective May 1, 2009

### Interests of Informed Persons in Material Transactions

Except as disclosed in this Circular, since the commencement of the last completed fiscal year, no Inside Director, Executive Director, nominee for Director, Officer, or any associate or affiliate of any of these groups, had any material interest, direct or indirect, in any transaction or any proposed transaction which has materially affected or would materially affect the Company.

*[The remainder of this page intentionally left blank]*

## PARTICULARS OF MATTERS TO BE ACTED UPON

### 1. Financial Statements

The Company's comparative audited financial statements and the associated management's discussion and analysis for the financial year ended December 31, 2009, will be mailed to Shareholders together with this Circular. These documents have been filed with SEDAR and may be found at [www.sedar.com](http://www.sedar.com) and on the Company's website [www.CoastalEnergy.com](http://www.CoastalEnergy.com). Additional copies will be available at the Meeting. If any Shareholder wishes additional copies of these materials prior to the Meeting, contact the Company directly.

### 2. Election of Directors

The Directors of the Company are elected at each annual general meeting of the Company's shareholders, subject to the right of the Board of the Company at any time, and from time to time, to appoint an additional person as Director, either as a result of a casual vacancy or as an additional Director, subject to the maximum number (if any) imposed by the Company by ordinary resolution of its shareholders. At this year's Annual General Meeting, seven (7) Directors are to be elected to hold office until the 2011 Annual General Meeting and until their successors have been duly elected or appointed or until they are removed by ordinary resolution. The seven (7) nominees for election at the Meeting are listed in the table below and have brief biographies on the following pages. The Board of the Company has determined that the following six (6) Directors satisfy the TSX-V and AIM Exchanges' definition of Independent Director: C Robert Black, Bernard de Combret, Oliver de Montal, Lloyd Barnaby Smith, Forrest E. Wylie and John B. Zaozirny. Randy L. Bartley is not independent as he is the President and Chief Executive Officer of the Company. The Company does not know of any reason why a nominee would be unable to serve as a Director. If any nominee is unable to serve, the shares represented by all valid proxies will be voted for the election of such other person as the Board may nominate.

	<p><b>Randy L. Bartley</b> Houston, Texas, USA</p> <p>Director Since: February 2008</p> <p><b>Executive</b></p>	<p>Before joining the Company, Mr. Bartley most previously worked for Erskine Energy, LLC, a private equity-sponsored company, where he served as founding partner and COO for four years. He has 33 years of diversified experience in the oil and gas industry, working for companies, including El Paso Corporation, Coastal Corporation and Texaco, Inc. The last 10 of those years were in senior management positions as president, COO, and Senior Vice President. This experience includes the exploration and development of numerous major oil and gas assets - both onshore and offshore and both in the U.S. and internationally. Mr. Bartley graduated from Rose Hulman Institute of Technology in 1975 with a degree in mechanical engineering. He is professionally affiliated with the Society of Petroleum Engineers and the National Ocean Industries Association. Age: 57</p>		
<b>Member of:</b>	<b>Attendance</b>	<b>Attendance Total</b>		<b>Membership on Boards of other reporting issuers, or equivalent</b>
Board	16 of 16	16 of 16	100%	Nil
<b>Company Securities Held:</b>				<b>Total</b>
<b>Options</b>	<b>Shares Held</b>	<b>Voting Trust <sup>(a)</sup></b>		<b>Voting Shares</b>
2,880,937	1,035,000	Nil		1,035,000

	<p><b>C. Robert Black</b> Horseshoe Bay, TX USA</p> <p>Director since: September 2006</p> <p><b>Independent</b></p>	<p>Mr. Black spent 41 years with Texaco, Inc. until his retirement in May 1999. At Texaco he held various roles, including President of the Worldwide Exploration and Production division and Senior Vice President in the office of the Chairman of Texaco. Mr. Black was also a member of Texaco's Executive Council, which has the responsibility for setting corporate strategies and priorities, and also served as Texaco's Corporate Compliance Officer. Mr. Black holds a Bachelor of Science (Petrochemical Engineering) degree from Texas Tech University, and has served as Chairman of the Board of Regents of his alma mater. Age: 75</p>		
	<p><b>Member of:</b></p> <p>Board 12 of 16 Audit 3 of 4 Compensation 2 of 2 Reserves 0 of 1</p>	<p><b>Attendance</b></p>	<p><b>Attendance Total</b></p> <p>17 of 23</p>	<p><b>74%</b></p>
<p><b>Company Securities Held:</b></p>				<p><b>Total</b></p>
Options	Shares Held	Voting Trust <sup>(a)</sup>		Voting Shares
250,000	Nil	5,594,930		5,594,930

	<p><b>Bernard de Combret</b> Martigny, Switzerland</p> <p>Director since: September 2006</p> <p><b>Independent</b></p>	<p>Mr. de Combret is former Deputy Chairman of the Executive Committee of Total. Following senior positions in both the Ministry of Foreign Affairs and the Ministry of Finance in France, he spent 24 years, from 1978 to 2002 (when he retired) with Elf and then Total, where he served in several executive positions, including CEO for Refining &amp; Marketing, CEO for Gas, Power &amp; New Energies, and CEO for Trading &amp; Transportation. He has served as a director on the boards of international public companies. He is a member of the International Advisory Board of Banco Santander and a member of the Advisory Board of Reech AiM Partners LLP. Mr. de Combret graduated from Ecole Polytechnique and Ecole Nationale d'Administration (ENA), Paris. He was elected by the Board as its Chairman in 2009. Age: 67</p>		
	<p><b>Member of:</b></p> <p>Board 16 of 16 Audit Note (b) Compensation 2 of 2 Corp. Govern. &amp; Nominating Note (d) Reserves 1 of 1</p>	<p><b>Attendance</b></p>	<p><b>Attendance Total</b></p> <p>19 of 19</p>	<p><b>100%</b></p>
<p><b>Company Securities Held:</b></p>				<p><b>Total</b></p>
Options	Shares Held	Voting Trust <sup>(a)</sup>		Voting Shares
750,000	1,071,975	5,594,930		6,666,905

	<b>Olivier de Montal</b> Paris, France  Director since: September 2006  <b>Independent</b>	Mr. de Montal is Administrator of ODM Finance, Loze & Associés and Compagnie des Produits de Gascogne, Advisor to the LVMH Group, and Chief Executive Officer of O.D.M. Développement. He has served on the boards of numerous public companies, including companies in the oil and gas industry. Mr. de Montal holds a degree from Ecole Supérieure de Commerce de Paris, and is a Chevalier de l'Ordre national de la Légion d'honneur (France). Age: 71		
	<b>Member of:</b>	<b>Attendance</b>	<b>Attendance Total</b>	<b>Membership on Boards of other reporting issuers, or equivalent</b>
Board Compensation	11 of 16 Note (c)	11 of 16 69%	Nil	
<b>Company Securities Held:</b>				<b>Total</b>
Options	Shares Held	Voting Trust <sup>(a)</sup>	Voting Shares	
250,000	32,500	5,594,930	5,627,430	

	<b>Lloyd Barnaby Smith,</b> <b>CMG</b> Richmond, England  Director since: September 2006  <b>Independent</b>	Mr. Smith began his career at the Foreign and Commonwealth Office (the “ <b>FCO</b> ”) in 1968 and held a number of senior positions within the FCO including Head of South Asia Department and British Ambassador to Nepal. Mr. Smith is very familiar with Thailand having spent a total of 10 years in the country during three separate postings and is the former United Kingdom Ambassador to Thailand, a position he held from February 2000 to July 2003. Mr. Smith holds a Bachelors of Arts degree from the University of Oxford, and is a fluent Thai speaker. Age: 65		
	<b>Member of:</b>	<b>Attendance</b>	<b>Attendance Total</b>	<b>Membership on Boards of other reporting issuers, or equivalent</b>
Board Compensation Reserves	16 of 16 2 of 2 1 of 1	19 of 19 100%	Nil	
<b>Company Securities Held:</b>				<b>Total</b>
Options	Shares Held	Voting Trust <sup>(a)</sup>	Voting Shares	
250,000	Nil	5,594,930	5,594,930	

	<b>Forrest E. Wylie</b> Houston, Texas, USA	Mr. Wylie currently serves as Chairman and CEO of Buckeye Partners, LP (NYSE). Mr. Wylie served as Vice Chairman of Pacific Energy Partners LP's board of directors from March 2005 until November 2006. Mr. Wylie was President and Chief Financial Officer of NuCoastal between May 2002 and March 2005. Prior to joining NuCoastal, Mr. Wylie served as Senior Vice President, Natural Gas Trading, for both the Coastal Corporation and its successor, El Paso Merchant Energy, L.P. Mr. Wylie also held senior positions at Engage Energy, LLC, Transocean, Inc. and American Exploration Company. Mr. Wylie holds a Bachelor of Business Administration from the University of Houston and a Master of Business Administration degree from the University of Texas at Austin. Age: 47		
	Director since: September 2006  <b>Independent</b>			
<b>Member of:</b>	<b>Attendance</b>	<b>Attendance Total</b>		<b>Membership on Boards of other reporting issuers, or equivalent</b>
Board	12 of 16	17 of 21	81%	Buckeye GP Holdings L.P. (NYSE) Buckeye Partners, LP (NYSE) Eagle Bulk Shipping Inc. (NASDAQ)
Audit	4 of 4			
Corp. Govern. & Nominating	Note (d)			
Reserves	1 of 1			
<b>Company Securities Held:</b>				<b>Total</b>
Options	Shares Held	Voting Trust <sup>(a)</sup>		Voting Shares
250,000	1,100,000	5,594,930		6,694,930

	<b>John B. Zaozirny</b> Calgary, Alberta, Canada	Mr. Zaozirny is Vice-Chairman of Canaccord Capital Corporation. Previously, Mr. Zaozirny was counsel to the law firm of McCarthy Tetrault LLP through 2008 and Alberta's Minister of Energy and Natural Resources from 1982 to 1986. Mr. Zaozirny holds numerous positions as a director and advisor to several corporations and income trusts, some of which include: Bankers Petroleum Ltd., Canadian Oils Sands Trust, Pengrowth Energy Trust and Provident Energy Ltd. Age: 63		
	Director since: June 2005  <b>Independent</b>			
<b>Member of:</b>	<b>Attendance</b>	<b>Attendance Total</b>		<b>Membership on Boards of other reporting issuers, or equivalent</b>
Board	12 of 16	16 of 20	80%	Bankers Petroleum Ltd. (TSX) Canaccord Capital Inc. (TSX) Canadian Oil Sands Trust (TSX) Computer Modeling Group Ltd. (TSX) Pacific Rubiales Energy Corp. (TSX) Pengrowth Corporation (TSX) Petroamerica Oil Corp. (TSX) Provident Energy Ltd. (TSX) Terravest Income Fund (TSX)
Audit	4 of 4			
Corp. Govern. & Nominating	Note (d)			
<b>Company Securities Held:</b>				<b>Total</b>
Options	Shares Held	Voting Trust <sup>(a)</sup>		Voting Shares
300,000	75,000	5,594,930		5,669,930

Notes:

- (a) This column represents the proportionate shares each "attorney" may vote of the total shares owned by Oscar S. Wyatt, Jr., which under an agreement with the Toronto Stock Exchange are held in a voting trust. This voting trust is more fully explained in the Company's AIF dated June 15, 2007 and filed with SEDAR. These shares represent 30.74% of the total shares outstanding
- (b) Mr. de Combret was appointed to the Committee in 2010. He has attended all of the 2010 Committee meetings held to date.
- (c) Mr. de Montal was appointed to the Committee in 2010. He has attended all of the 2010 Committee meetings held to date.
- (d) The Committee did not meet in 2009. It has met twice in 2010 to date, at which all of its members were present.

**The Board recommends a vote FOR the following proposal:**

*“RESOLVED, that the nominees named below be elected as Directors of the Company::*

**Randy L. Bartley**  
**C. Robert Black**  
**Bernard de Combret**  
**Oliver de Montal**  
**Lloyd Barnaby Smith**  
**Forrest E. Wylie**  
**John B. Zaozirny,**

*FURTHER RESOLVED, that such newly-elected Directors shall serve for a term ending on the date of the 2011 annual general meeting of the Company’s shareholders, unless earlier removed in accordance with the terms of the Company’s Memorandum and Articles of Association.*

**3. Appointment of Auditors**

At the Meeting, the Company's shareholders will be asked to approve a resolution reappointing the accounting firm of Deloitte & Touche, LLP as the Company's auditors, to hold office until the next annual general meeting of the shareholders and remuneration to be fixed by the Board. .

Deloitte & Touche LLP has served as the Company's external auditor since November 30, 2004. The following table lists the audit fees paid to Deloitte & Touche LLP, by category, for the fiscal years ending December 31, 2009 and 2008:

Year ended December 31,	2009	2008
Audit Fees	\$284,000	\$255,000
Audit-Related Fees	192,000	85,000
Tax Fees	27,000	64,000
All Other Fees	-	-
<b>Total</b>	<b>\$503,000</b>	<b>\$404,000</b>

Audit fees were paid for professional services rendered by the auditors for the audit of the Company's annual financial statements or services provided in connection with statutory and regulatory filings or engagements and the review of the Company's interim financial statements.

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual and interim financial statements and are not reported under the audit fees item above.

Tax Fees were for professional services related to tax compliance, tax planning and tax advice.

**The Board recommends a vote FOR the following proposal:**

*“RESOLVED, that the selection by the Board’s Audit Committee of the firm of Deloitte & Touche, LLP, as independent auditor of the Company for the year 2010, is hereby approved, ratified and confirmed.*

*RESOLVED FURTHER, that the Board’s Audit Committee be and they are hereby authorized without further shareholder approval, to determine the amount of the Auditors’ remuneration.”*

#### **4. Establishment of a Restricted Stock Plan**

The Board believes it important that they, the officers and employees of the Company (and its subsidiaries) be properly motivated to perform their duties, through prospective economic rewards for their good job performance. To this end, the Board established the 2008 Stock Option Plan, which was approved by the resolution of the Company's shareholders, taken during the 2008 Meeting (see section entitled Stock Options). A total of 15,000,000 shares were authorized for award under that program, of which 9,631,187 shares are currently issued and outstanding.

In that same year, the Board authorized the establishment of a Stock Appreciation Rights Plan (see section entitled "Stock Appreciation Rights (SARs)"). Unlike the Stock Option Plan, which involves the actual issuance of authorized shares upon the holder's exercise of a vested stock option; the SARs Plan calls for the Company's payment of the market value of number of shares represented by a SARs award, on the vesting date of the award. Unlike vested stock options, which when exercised, represent cash inflows for the Company, SARs award, upon vesting, represent cash outflow. The Company first awarded SARs in 2009 based on 2008 performance, the first tranche of those awards vested in 2010, as a result of which the Company incurred a total 2009 liability of \$6,866,000 in SAR Awards, of which the Company has paid \$1,158,000 so far in 2010. There remain a total of 2,743,777 SAR awards outstanding, which will vest over the next three years.

While the Board believes that the Stock Option Plan and the SARs Plan have both served their intended purpose of incentivizing good performance by the Directors and personnel, the Board is also cognizant of the disparity of impact on cash flow caused by the two; and, on balance, the Board has reached the conclusion that use of a restricted stock plan is preferable to SARs, in most instances. The future use of the SARs Plan would be significantly reduced by use of the proposed Restricted Stock Plan, but not eliminated. The Board further believes it is prudent to maintain the flexibility to mix and/or tier SARs and Restricted Stock grants to recognize and incentivize individual performance while minimizing cash outflow from the Company. Accordingly the Board has authorized the establishment of a Restricted Stock Plan (see section entitled "Restricted Stock"), the specifics of which are set forth in Exhibit "D", such authorization being subject to:

- (1) shareholder approval;
- (2) the listing of the Company's shares on the Toronto Exchange <sup>(a)</sup>; and
- (3) the total of outstanding shares issued under both the Stock Option Plan and the Restricted Stock Unit Plan not to exceed the 15,000,000 share limit authorized in 2008.

Note (a): No companies on the TSX-Venture Exchange have restricted stock plans, thus the matter is not addressed under that exchange's rules. Therefore, to establish the plan, the Company's legal advisors believe that the plan would have to undergo review and approval by exchange staff. On the other hand, many companies on the larger Toronto Exchange have such plans, which are fully addressed in that exchange's rules. The plan which is being proposed comports with the requirements of the Toronto Exchange; thus regulatory review / approval would not be required. Since the Company plans to move its listing from the TSX-Venture Exchange to the Toronto Exchange during 2010, no restricted stock awards will be made until that change of listing has been accomplished.

#### **The Board recommends a vote FOR the following proposal:**

*"RESOLVED, that the 2010 Restricted Stock Unit Plan, as set forth in Exhibit "D" be, and it is hereby, approved; and*

*FURTHER RESOLVED, that management shall not issue any awards under the plan until such date as the Company's shares have been listed on the Toronto Stock Exchange;*

*FURTHER RESOLVED, that the combined total of shares issued and outstanding under both the 2008 Incentive Stock Option Plan and the 2010 Restricted Stock Unit Plan shall not exceed 15,000,000 shares at any given point in time.*

**Additional Information**

Further information related to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Financial information is provided in the Company's comparative financial statements and management's discussion and analysis for the year ended December 31, 2009.

To request copies of the financial statements and management's discussion and analysis, Shareholders may contact William Phelps, the Company's Chief Financial Officer, at 3355 W. Alabama, Suite 500, Houston, Texas 77098-1717, USA, telephone +01 713 877-6727.

**Approval of This Circular**

The Directors have approved the content of this Circular and its delivery to the shareholders.]

ON BEHALF OF THE BOARD

*Signed by Bernard de Combret*

Bernard de Combret  
Chairman of the Board  
George Town, Grand Cayman, BWI  
May 28, 2010

**APPENDIX TO THE MANAGEMENT INFORMATION CIRCULAR  
OF COASTAL ENERGY COMPANY DATED 25 JUNE 2009**

**APPENDIX A Management's Discussion and Analysis as of December 31, 2009**

**APPENDIX B Audited Financial Statements as of December 31, 2009**

**APPENDIX C Audit Committee Mandate or "Terms of Reference"**

**APPENDIX D Proposed Restricted Stock Unit Plan**

The Following Appendices to the  
MANAGEMENT INFORMATION CIRCULAR  
of COASTAL ENERGY COMPANY DATED 25 JUNE 2009  
Have Already Been Filed on SEDAR and  
Therefore, are Not Included in this Filing

APPENDIX A Management's Discussion and Analysis as of December 31, 2009  
(Filed 19 April 2010)

APPENDIX B Audited Financial Statements as of December 31, 2009  
(Filed 19 April 2010)

APPENDIX C Audit Committee Mandate or "Terms of Reference"  
(Filed 20 April 2010 as part of Annual Information Form)

## Appendix D

# COASTAL ENERGY COMPANY 2010 RESTRICTED STOCK UNIT PLAN

Adopted July 22, 2010



**COASTAL ENERGY COMPANY  
2010 RESTRICTED STOCK UNIT PLAN**

**Adopted July 22, 2010**

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## 1.0 PURPOSE OF THE PLAN

The purpose of the Plan is to assist the Company in attracting and retaining individuals with experience and ability, to allow certain employees of the Company to participate in the long term success of the Company and to promote a greater alignment of interests between the employees designated under this Plan and the shareholders of the Company.

## 2.0 DEFINITIONS AND INTERPRETATIONS

### 2.1. Definitions

For purposes of the Plan, the terms contained in this Section shall have the following meanings.

**“Administrator”** shall mean such administrator as may be appointed by the Company from time to time to administer the Plan.

**“Affiliate”** means any subsidiary of the Company that is majority owned by the Company;

**“Board of Directors”** shall mean the Board of Directors of the Company.

**“Business Day”** shall mean a day, other than a Saturday or Sunday, on which banking institutions in the Cayman Islands, Canada and the United States are not authorized or obligated by law to close.

**“Change in Control”** shall mean

- (a) any transaction or series of transactions, whether by way of consolidation, amalgamation or merger of the Company, with or into any other corporation, or any transfer, conveyance, sale, lease, exchange or otherwise, of all or substantially all of the assets of the Company to any person;
- (b) any acquisition or series of acquisitions, directly or indirectly, and by any means whatsoever by any person or by a group of persons, acting jointly or in concert, of that number of voting shares of the Company which is equal to or greater than 50% of the total issued and outstanding voting shares immediately after such acquisition; or
- (c) the Board of Directors of the Company, in circumstances where a Change of Control is in their view, acting reasonably, a certainty, by resolution deems that a Change of Control of the Company has occurred or is about to occur;

**“CIC Share”** shall mean the following with respect to each Covered RSU:

- (a) the sum of: (A) the number of Consideration Shares (as defined below), rounded to the nearest whole number, that is equal to the product of (x) one Share multiplied by (y) the number of Consideration Shares (as defined below) received by the shareholders the Company in respect of one Share, if, in connection with the transaction constituting the Change in Control, the shareholders of the Company exchange their Shares for, or otherwise convert their Shares into, shares of equity securities of the acquiror (or its direct or indirect parent) (such shares of equity securities, the “Consideration Shares”); and (B) the amount, if

any, that is equal to the product of (x) one Share multiplied by (y) any cash or other property, the fair market value of which shall be determined by the Board of Directors (as constituted immediately prior to the effective date of such Change of Control), received by the shareholders of the Company in respect of one Share, in connection with such transaction; and

- (b) in the case of all other transactions constituting the Change in Control, one Share, as adjusted pursuant to Section 7 hereof in connection with such transaction, if applicable; and, in each case, as further adjusted pursuant to Section 7, if applicable, in respect of covered events occurring after such Change in Control.

**"Committee"** shall mean the Compensation Committee of the Board of Directors or such other committee of the Board of Directors comprised of members of the Board of Directors as the Board of Directors shall from time to time appoint to administer the Plan.

**"Company"** shall mean Coastal Energy Company, an exempted company incorporated with limited liability under the laws of the Cayman Islands or its successors.

**"Consultant"** means a natural person who:

- (a) provides bona fide services to the Company or an Affiliate, including ongoing consulting, technical, management or other services, under a written contract with the Company; provided, however, that such services are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company's securities,
- (b) possesses technical, business or management expertise of value to the Company (or its Affiliates),
- (c) in the opinion of the Company, spends or will spend a reasonable amount of time and attention on the business and affairs of the Company or an Affiliate, and
- (d) has a relationship with the Company (or an Affiliate) that enables the Consultant to be knowledgeable about the business and affairs of the Company or the Affiliate.

**"Covered RSU"** shall mean, with respect to each Grant that is outstanding on the effective date of such Change of Control, the number of RSUs that would have been issued to a Participant on the applicable Release Date and settled in the form of RSU Shares had (x) the Participant continued in the employment of the Company until such Release Date and (y) all Performance Criteria, if any, applicable to such Grant (determined without regard to the occurrence of the Change in Control) had been met during the applicable Performance Period, if any.

**"Designated Employee"** shall mean a Director, Officer, Employee, or Consultant of the Company or of an Affiliate who is designated by the Committee for participation in the Plan.

**"Director"** means a director of the Company or of an Affiliate;

**"Effective Date"** shall mean, unless otherwise determined by the Board of Directors when confirming a Grant, the date determined by the Committee, in accordance with Section 5 hereof, as being the date on which such Grant shall take effect, provided that the Effective Date shall not be a date prior to the date on which the Board of Directors confirms the Grant and, unless otherwise determined, the Effective Date will be the date on which the Board of Directors confirms the Grant.

**"Employee"** means an individual (other than a Director or Officer) who:

- (a) works for the Company or an Affiliate on a continuing and regular basis for a minimum amount of time per week providing services specified by the Company or the Affiliate and is subject to the control and direction of the Company or the Affiliate regarding both the method of performing or executing the services and the result to be effected,
- (b) works full-time for the Company or an Affiliate providing services normally provided by an employee and who is subject to the same control and direction by the Company or the Affiliate over the details and method of work as an employee of the Company or the Affiliate, and for whom income tax deductions are made at source, or
- (c) works for the Company or an Affiliate on a continuing and regular basis for a minimum amount of time per week providing services normally provided by an employee and who is subject to the same control and direction by the Company or the Affiliate over the details and method of work as an employee of the Company or the Affiliate, but for whom income tax deductions are not made at source.

**"Fiscal Year"** shall mean any fiscal year of the Company, commencing with the fiscal year ending December 31, 2009.

**"Grant"** shall mean an award of RSUs allocated to a Designated Employee at any time in accordance with Section 5 hereof.

**"ISO Plan"** shall mean the Company's 2008 Incentive Stock Option Plan, as amended and restated from time to time.

**"Officer"** means a president, vice president, secretary, treasurer or principal financial officer, comptroller or principal accounting officer of the Company or of an Affiliate and any person routinely performing corresponding functions with respect to the Company or an Affiliate.

**"Participant"** shall mean a Designated Employee to whom a Grant has been made in accordance with Section 5 hereof.

**"Performance Criteria"** shall mean criteria established by the Committee in respect of each Grant, if any, which, without limitation, may include criteria based on the financial performance of the Company and/or any Affiliate thereof.

**"Performance Period"** shall mean the period established by the Committee in respect of each Grant, if any, which period shall commence and end on the dates designated by

the Committee; provided, however, that each Performance Period shall, unless otherwise determined by the Committee, commence no earlier than the first day of the Fiscal Year in which the Grant was made and end no later than the end of the second Fiscal Year following the Fiscal Year in which the Grant was made.

“**Plan**” shall mean the Coastal Energy Company Restricted Stock Unit Plan as set forth herein and as the same may be further amended from time to time.

“**Release Date**” shall mean in respect of each Grant, unless otherwise determined by the Committee, (i) for the purpose of paragraphs (c) and (f) of Section 6, the day which is fifteen (15) Business Days following the end of the second Fiscal Year subsequent to the Fiscal Year in which such Grant was made, and (ii) for all other purposes, the tenth Business Day following notification to the Company and the Administrator of the occurrence of the event giving rise to the issuance of the RSUs in accordance with the provisions of the Plan.

“**RSU**” shall mean a restricted stock unit allocated to a Designated Employee in accordance with Section 5 hereof which shall upon issuance, in accordance with and subject to the provisions of the Plan, entitle the holder thereof to receive one RSU Share.

“**RSU Shares**” shall mean the Shares delivered to Participants in accordance with the provisions of the Plan in settlement of RSUs issued under the Plan.

“**Shares**” shall mean the common shares in the capital of the Company with a nominal or par value of US\$0.04 each and “**Share**” shall mean a common share of the Company.

“**Special Value**” shall mean an amount with respect to each Covered RSU determined as follows:

- (a) if any Shares are sold as part of the transaction constituting the Change in Control, the Special Value shall equal the weighted average of the prices paid for those Shares by the acquiror, provided that if any portion of the consideration paid for such Shares by the acquiror is paid in property other than cash, the Board of Directors (as constituted immediately prior to the effective date of such Change of Control) shall determine the fair market value of such property as of the effective date of such Change of Control for purposes of determining the Special Value under paragraph 6.5; and
- (b) if no Shares are sold as part of the transaction constituting the Change in Control, the Special Value shall equal the volume-weighted average of the closing prices for the Shares on the TSX Venture Exchange for the five (5) trading days immediately preceding the effective date of such Change of Control.

“**subsidiary**” means an issuer that is controlled by another issuer.

## 2.2. Interpretations

Any reference to the outstanding common shares at any point in time shall be computed on a non-diluted basis.

In this Plan, whenever the context so requires, the masculine gender includes the feminine gender and a singular number includes the plural number.

### **3.0 ADMINISTRATION**

The Committee shall administer the Plan in accordance with its terms. The Committee may, subject to the terms of the Plan, delegate to third parties, including the Administrator if one is appointed, the whole or any part of the administration of the Plan and shall determine the scope of such delegation. Any decision made by the Committee or the Administrator in carrying out its responsibilities with respect to the administration of the Plan shall be final and binding on the Participants.

In addition to the other powers granted to the Committee under the Plan and subject to the terms of the Plan, the Committee shall have full and complete authority to interpret the Plan. The Committee and/or the Administrator may from time to time prescribe such rules and regulations and make all determinations necessary or desirable for the administration of the Plan. In particular, the Committee shall select the Designated Employees to whom it recommends Grants shall be made and shall determine the amounts and terms of the Grants (including the related Performance Criteria, if any, and the formula, if any, to be used to determine the number of RSUs to be issued based on the level of achievement of such Performance Criteria), and the extent to which the Performance Criteria to be achieved during the Performance Period, if any, has been achieved. Any such interpretation, rule, determination or other act of the Committee and/or the Administrator shall be conclusively binding upon all persons, including the Participants and their legal representatives and beneficiaries.

No member of the Committee or the Board of Directors shall be liable for any action or determination made in good faith pursuant to the Plan. To the full extent permitted by law, the Company shall indemnify and save harmless each person made, or threatened to be made, a party to any action or proceeding by reason of the fact that such person is or was a member of the Committee or is or was a member of the Board of Directors and, as such, is or was required or entitled to take action pursuant to the terms of the Plan.

Except as Participants may otherwise be advised by prior written notice of at least thirty (30) days, all costs of the Plan, including any administration fees, shall be paid by the Company; provided, however the Company's responsibility for administration fees does not include tax consequences to the Participant of his/her receipt of RSU shares, which shall be the exclusive responsibility of the Participant.

### **4.0 RSU SHARES SUBJECT TO THE PLAN**

The Company shall not be required to issue and/or cause to be delivered Shares or issue and/or cause to be delivered certificates evidencing Shares to be delivered pursuant to the Plan unless and until such issuance and delivery is in compliance with all applicable laws, regulations, rules, orders of governmental or regulatory authorities and the requirements of any stock exchange upon which Shares of the Company are listed. The Company shall not in any event be obligated to take any action to comply with any such laws, regulations, rules, orders or requirements. Subject to the foregoing, the Board of Directors may authorize from time to time the issuance by the Company of Shares and the Board of Directors may authorize from time to time the purchase of Shares for the benefit of Participants on the open market or by private transaction as required in order to administer the Plan.

## 5.0 GRANTS

The number of RSUs outstanding under the Plan combined with the number of stock options outstanding under the Company's ISO Plan shall not exceed 15,000,000 shares at any given point in time.

Subject to the provisions of the Plan, the Committee shall, in its sole discretion and from time to time, determine the Designated Employees to whom it recommends that Grants be made based on their current and potential contribution to the success of the Company. At such time, the Committee shall also:

- (a) determine, in connection with each Grant, the Effective Date thereof and the number of RSUs to be allocated, subject to Black-out Periods (see below);
- (b) determine, in connection with each Grant, the Performance Period, if any, applicable thereto;
- (c) determine, in connection with each Grant, the Performance Criteria, if any, to be achieved during the Performance Period; and
- (d) determine the other terms and conditions (which need not be identical and which, without limitation, may include conditions on the allocation, issuance and/or settlement of RSUs, and non-competition provisions) of all RSUs covered by any Grant.

Any Grant and any determination made by the Committee in connection with any such Grant as provided shall be subject to confirmation by the Board of Directors.

The Company may from time to time impose trading blackouts during which Directors, Officers, Employees, and Consultants of the Company may not trade in the securities of the Company. In the event that a trading blackout is imposed, Participants subject to the blackouts are prohibited from buying, selling or otherwise trading in securities of the Company until such time as notice is formally given by the Company that trading may resume. Note that blackout expiry provisions only become effective when the blackout period is self-imposed by the Company.

If the Effective Date of any grant of RSUs falls within a blackout period, it shall be automatically extended until six (6) Business Days past the date of the cessation of the blackout period.

## 6.0 TERMS AND CONDITIONS OF RESTRICTED STOCK UNITS

Certificates need not be issued with respect to RSUs covered by a Grant or RSUs when issued. The Company or the Administrator shall maintain records showing the number of RSUs allocated to each Participant under the Plan. Each Participant shall be notified in writing of the number of RSUs covered by a Grant and of the terms and conditions of such Grant, including those described below:

### 6.1. Number of RSUs

Each notification of Grant shall state the number of RSUs allocated to the Participant and state that each such RSU shall upon issuance, subject to and in accordance with the terms of the Plan, entitle the Participant to receive one RSU Share,

**6.2. Performance Criteria**

Each notification of Grant shall describe the Performance Criteria, if any, for the Performance Period, if any, established by the Committee that must be achieved for RSUs to be issued to the Participant.

**6.3. Issue and Settlement of RSUs**

Unless otherwise determined by the Committee and except as otherwise provided in paragraphs 6.4, 6.5 or 6.6 of this Section or in any other employee benefit plan approved by the Board of Directors, subject to the level of achievement of Performance Criteria, if any, determined by the Committee, the Company shall issue to a Participant the RSUs covered by a Grant on the Release Date, in full satisfaction and cancellation of such Grant; provided that such Participant is continuously employed with the Company from the Effective Date of such Grant to the Release Date. The Participant shall be entitled to receive on the Release Date, in full settlement of the RSUs issued, a number of RSU Shares equal to the number of RSUs issued. Any RSUs covered by a Grant that are not issued on the Release Date in accordance with the Plan or are not otherwise settled (i) in accordance with this paragraph 6.3 or paragraphs 6.5 or 6.6 of this Section, or (ii) prior to the Release Date, in accordance with the terms of any other employee benefit plan approved by the Board of Directors, shall be forfeited on the Release Date and the related Grant shall expire in its entirety, unless such forfeiture or expiration would be contrary to a provision in the Participant's employment contract, in which case the provision in the employment contract shall control.

**6.4. Right to RSUs in the Event of Death, Retirement or Termination of Employment**

Death

- (a) In the event of the death of a Participant while in the employment of the Company, the deceased Participant's estate shall elect in writing to the Company, within one hundred and eighty (180) days of the Participant's death, with respect to each Grant then outstanding to such Participant for which RSUs have not otherwise been issued prior to the date of death, to receive, subject to and in accordance with the provisions of the Plan, an RSUs settlement, in the form of RSU Shares, by payment to the deceased Participant's estate, by accounting under one of two options:
- (1) Either, as if the Performance Period, if any, had ended and the Performance Criteria, if any, had been met (but not exceeded) for any such Grant, on the day preceding the date of the Participant's death (in which case, receipt of the election from the Participant's estate shall constitute the event giving rise to the issuance of the RSUs for the purpose of determining the applicable Release Date); or
  - (2) on the Release Date on which all or a portion of the RSUs would otherwise have been issued, if at all, in accordance with the Plan had the Participant not died and continued in the employment of the Company until such Release Date.
- (b) In the event a deceased Participant's estate fails to make an election as herein provided, such Participant's estate shall be deemed to have elected to receive RSUs settled in the form of RSU Shares in accordance with subparagraph (1) above.

- (c) In the event of the death of a Participant following the end of the Performance Period, if any, but prior to the Release Date, the number of such RSUs that would otherwise be issued to such Participant shall be issued in the form of RSU Shares and delivered to the Participant's estate in accordance with and subject to paragraph 6.3 of this Section, as if such Participant had continued in the employment of the Company until the Release Date.

#### Retirement

In the event of retirement of a Participant, with respect to each Grant then outstanding to such Participant for which RSUs have not been issued prior to the date of retirement, the RSUs covered by any such Grant to the Participant shall be issued in accordance with and subject to paragraph 6.3 of this Section, as if the Participant continued in the employment of the Company until the Release Date.

#### Termination

In the event a Participant's employment terminates for any cause other than death or retirement, and unless otherwise provided in an employment contract between the Participant and the Company, the RSUs covered by each Grant then outstanding to such Participant for which RSUs have not been issued prior to such termination shall be forfeited as of such termination of employment with the Company, all such Grants shall expire in their entirety and any such termination of employment for whatever reason shall not entitle a Participant to any compensation for loss of any benefit under the Plan.

### **6.5. Right to RSUs in the Event of a Change in Control**

In the event of the occurrence of a Change in Control, and unless otherwise determined by the Committee, or otherwise addressed in the Participant's employment contract (which shall have controlling effect), with respect to each Grant outstanding on the effective date of such Change of Control,

- (a) notwithstanding any other provision of this Plan, any and all requirements that any Performance Criteria be achieved for any purpose applicable to such Grants shall be waived as of the effective date of such Change of Control; and
- (b) except as may be otherwise provided under the terms of any other employee benefit plan approved by the Board of Directors, each Participant who has received any such Grant shall, on the Release Date which would have applied had the Change in Control not occurred, be entitled to receive from the Company, in full settlement of an RSU covered by such Grant, one of the following, at the sole discretion of the Committee:
- (1) a cash payment equal to the Special Value for each Covered; or
  - (2) one CIC Share for each Covered RSU;

provided that such Participant is continuously employed by the Company from the Effective Date of such Grant to the Release Date.

**6.6. Non-Transferability**

The rights or interests of a Participant under the Plan shall not be assignable or transferable, otherwise than by will or the laws governing the devolution of property in the event of death and such rights or interests shall not be encumbered.

**6.7. RSUs Not Shares**

Under no circumstances shall a Grant of an RSU be considered a Share, nor shall a Grant of an RSU entitle any Participant to the exercise of voting rights, the receipt of dividends or the exercise of any other rights attaching to ownership of a Share, until delivery of an RSU Share in settlement of such RSU in accordance with the terms of the Plan. Notwithstanding the foregoing, in the event that Shares are purchased and held for the benefit of a Participant prior to delivery of RSU Shares in settlement of any RSUs, the Committee may determine the extent to which a Participant may be entitled to exercise any voting rights, receive dividends or exercise any other rights attaching to ownership of such Shares.

**6.8. RSU Shares Fully Paid**

RSU Shares, if issued by the Company to settle RSUs under the Plan, shall be considered fully paid in consideration of past service that is no less in value than the fair equivalent of the money the Company would have received if the RSU Shares had been issued for money.

**7.0 EFFECTS OF ALTERATION OF SHARE CAPITAL**

In the event that:

- (a) a dividend shall be declared upon the Shares payable in Shares of the Company;
- (b) the outstanding Shares shall be changed into or exchanged for a different number or kind of shares or other securities of the Company or of another corporation, whether through an arrangement, plan of arrangement, amalgamation or other similar statutory procedure, or a share recapitalization, subdivision or consolidation;
- (c) there shall be any change, other than those specified in paragraphs (a) and (b) of this Section, in the number or kind of outstanding Shares or of any shares or other securities into which such Shares shall have been changed or for which they shall have been exchanged; or
- (d) there shall be a distribution of assets or shares to shareholders of the Company out of the ordinary course of business,

then, if the Board of Directors shall in its sole discretion determine that such change equitably requires an adjustment in the number of RSUs with respect to which Grants may be made pursuant to the Plan but not yet covered by Grants, of the RSUs then covered by Grants, of the RSUs generally available for Grants under the Plan and of the RSUs available for Grants under the Plan in any calendar year, such adjustment shall be made by the Board of Directors and shall be effective and binding for all purposes.

No adjustment provided for in this Section shall entitle a Participant to be allocated a fractional RSU, or receive a fractional RSU Share or any payment in lieu thereof, and the total adjustment with respect to each RSU shall be limited accordingly.

## 8.0 AMENDMENT AND TERMINATION

The Board of Directors may from time to time amend, suspend or terminate the Plan in whole or in part. The Committee may from time to time amend the terms of Grants made under the Plan, subject to confirmation by the Board of Directors and the obtaining of any required regulatory, shareholder, or other approvals and, if any such amendment will materially adversely affect the rights of a Participant with respect to a Grant, the obtaining of the written consent of such Participant to such amendment. Notwithstanding the foregoing, (i) the obtaining of the written consent of any Participant to an amendment which materially adversely affects the rights of such Participant with respect to a Grant shall not be required if such amendment is required to comply with applicable laws, regulations, rules, orders of governmental or regulatory authorities or the requirements of any stock exchange on which Shares of the Company are listed and (ii) no amendment may be made to paragraph 6.5 of Section 6 of the Plan or to the defined terms referred to in paragraph 6.5 of Section 6 on or after the effective date of such Change of Control.

## 9.0 CERTAIN SECURITIES LAW MATTERS

### 9.1. Restrictive Legend

All certificates or other documents representing securities issued pursuant to the Plan will bear a restrictive legend referring to the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), which will state, without limitation, that such securities have not been registered under the Securities Act and will set forth or refer to the restrictions on transferability and sale thereof, substantially as follows:

“THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER UNITED STATES FEDERAL OR STATE SECURITIES LAWS AND NEITHER SUCH SECURITIES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR OTHERWISE TRANSFERRED, DIRECTLY OR INDIRECTLY, NOR MAY THE SECURITIES BE TRANSFERRED ON THE BOOKS OF THE CORPORATION, UNLESS: (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER ALL APPLICABLE UNITED STATES FEDERAL AND STATE SECURITIES LAWS, OR (2) THE CORPORATION RECEIVES AN OPINION OF LEGAL COUNSEL TO THE HOLDER OF SUCH SECURITIES, WHICH COUNSEL AND OPINION ARE SATISFACTORY TO THE CORPORATION, AS TO THE AVAILABILITY OF, AND COMPLIANCE WITH, AN APPLICABLE EXEMPTION THEREFROM, AND THAT NO VIOLATION OF SUCH REGISTRATION PROVISIONS WOULD RESULT FROM ANY PROPOSED OFFER, SALE, PLEDGE, ASSIGNMENT OR TRANSFER. DELIVERY OF THIS CERTIFICATE MAY NOT CONSTITUTE “GOOD DELIVERY” IN SETTLEMENT OF TRANSACTION ON STOCK EXCHANGES IN CANADA.”

In addition to the foregoing restrictive legend, certificates representing any securities issued pursuant to the Plan may bear such additional restrictive legends as the Board of Directors or Committee may in their sole discretion determine are required to comply with applicable securities laws or stock exchange requirements.

## **9.2. Delivery of the Plan**

The Company shall deliver a copy of the Plan to each Participant who receives any Grant under the Plan no later than the time of such Grant.

## **9.3. Additional Disclosure**

Subject to Section 4.0 hereof, the Company shall also deliver to each Participant any additional disclosure necessary to comply with the requirements of Rule 701 under the Securities Act, in the manner, and at the time, required by such Rule 701, including, without limitation, if the aggregate sales price or amount of securities sold during any consecutive 12-month period exceeds \$5 million (as determined in accordance with Rule 701), the following as applicable:

- (a) a summary of material terms of the Plan;
- (b) information about the risks associated with investment in the securities sold pursuant to the Plan; and
- (c) financial statements required to be furnished by Part F/S of Form 1-A under Regulation A of the Securities Act and a reconciliation to generally accepted accounting principles in the United States (which financial statements must be as of a date no more than 180 days before the sale of securities in reliance on such Rule 701).

## **9.4. Compliance with Rule 701**

Subject to Section 4.0 hereof, (i) any offers or sales of securities pursuant to the Plan shall be made in compliance with Rule 701 under the Securities Act and (ii) during any consecutive twelve (12) month period, the aggregate amount of securities sold under the Plan (determined in accordance with such Rule 701) shall not exceed 15% of the outstanding amount of Shares, measured at the Company's most recent balance sheet date (if no older than its last fiscal year end), or such greater amount as may be permitted under Rule 701, if applicable.

## **10.0 MISCELLANEOUS PROVISIONS**

### **10.1. No Right to Continued Employment**

Participation in the Plan by a Designated Employee is voluntary. No employee shall have any claim or right to receive Grants under the Plan, and the Grant and issuance of RSUs under the Plan shall not be construed as giving a Participant any right to continue in the employment of the Company or to receive any additional Grants, or affect the right of the Company to terminate the employment of any Participant. Unless the Committee determines otherwise, no notice of termination or payment in lieu thereof shall extend the period of employment for purposes of this Plan.

### **10.2. Income Tax Withholding Compliance**

The Committee and/or the Administrator may adopt and apply rules that in its opinion will ensure that the Company will be able to comply with applicable provisions of any federal, provincial, state or local law relating to the withholding of tax, including on the amount, if any, included in income of a Participant. The Company or the Administrator may withhold from any amount payable to a Participant, either under this Plan, or otherwise, such amount as may be necessary so as to ensure that the Company will be able to comply with applicable provisions of any federal, provincial, state or local law relating to withholding of tax or other required deductions, including on the amount, if any, includable in the income of a Participant. The Company or the Administrator shall, in this connection, have the right in its discretion to satisfy any such withholding tax liability by retaining or acquiring any Shares which would otherwise be issued or provided to a Participant hereunder, or withholding any portion of any cash amount payable to a Participant hereunder. The Company or the Administrator shall also have the right to withhold the delivery of any RSUs and RSU Shares and any cash payment payable to a Participant hereunder unless and until such Participant pays to the Company a sum sufficient to indemnify the Company for any liability to withhold tax in respect of the amounts included in the income of such Participant as a result of the settlement of RSUs under this Plan, to the extent that such tax is not otherwise being withheld from payments to such Participant by the Company or the Administrator.

### **10.3. Acceptance of Plan Terms and Conditions**

Participation in the Plan by any Participant shall be construed as acceptance of the terms and conditions of the Plan by the Participant and as to the Participant's agreement to be bound thereby.

### **10.4. Governing Law**

This Plan, the issuance and settlements of RSUs hereunder, and the issue and delivery of Common Shares hereunder upon settlement shall be, as applicable, governed by and construed in accordance with the laws of the Cayman Islands. The Courts of the Cayman Islands shall have the exclusive jurisdiction to hear and decide any disputes or other matters arising herefrom.

### **10.5. Non-Exclusivity**

Nothing contained herein shall prevent the Company from adopting such other incentive or compensation arrangements as it shall deem advisable.

## **11.0 EFFECTIVE DATE AND TERM OF THE PLAN**

The Plan originally became effective upon its adoption by the Company's shareholders. Any amendments to the Plan shall become effective upon their adoption by the Board of Directors. The Plan shall terminate on such date as may be determined by the Board of Directors pursuant to Section 8 hereof, and no Grants may become effective under the Plan after the date of termination, but such termination shall not affect any Grants that became effective pursuant to the Plan prior to such termination.

**SCHEDULE "A" - NOTICE OF GRANT OF RSUs  
COASTAL ENERGY COMPANY  
2010 RESTRICTED STOCK UNIT PLAN**

**[Date]  
RSU Certificate [Number]**

**[Name & Address]**

Dear **[Name]**:

This is to advise you that in recognition of your contribution to our business, you have been selected to participate in the 2010 Restricted Stock Unit Plan (the "Plan") of Coastal Energy Company (the "Company"). On **[Date]** you were granted • RSUs to receive one RSU Share of the Company per RSU subject to the provisions of the Plan (as amended from time to time), a current copy of which is attached to this notice. The RSUs granted to you by the Company shall be subject to the following criteria:

**[NTD: Describe the performance criteria, if any during the performance period and the release date(s) for the RSU Shares]**

By accepting this grant, you represent and warrant to the Company that your participation in the Company's 2010 Restricted Stock Unit Plan (as amended from time to time) is voluntary and that you have not been induced to participate by expectation of engagement, appointment, employment, continued engagement, continued appointment or continued employment, as applicable.

If you are an insider of the Company, you are required to file an "insider report" under Canadian securities laws in respect of the grant of these RSUs and, in the future, upon conversion of these RSUs into RSU Shares and any sale of the underlying common shares thereafter.

The grant of RSUs described above is strictly confidential and the information concerning the number or criteria related to these RSUs granted should not be disclosed to anyone, except applicable government authorities.

Yours sincerely,

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The undersigned acknowledges receipt of a current copy of the Plan and acknowledges and agrees that the undersigned's RSUs are subject to and governed by the provisions of the Plan (as amended from time to time).

Dated this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_.

\_\_\_\_\_  
**[Name]**

